

In the opinion of Bond Counsel, under existing laws, regulations, rulings, and court decisions and assuming compliance with certain provisions of various documents intended to meet the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, the interest on the Bonds is excluded from gross income for federal income tax purposes, except to the extent that interest paid on the Bonds is required to be considered in the calculation of any alternative minimum tax paid by corporations, and is exempt from present California personal income tax. See "TAX EXEMPTION" herein.

\$80,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
(SAN DIEGO COUNTY, CALIFORNIA)
SERIES 1998 SPECIAL TAX BONDS

Dated: Date of Delivery

Due: October 1, as shown below

The Bonds are being issued and delivered to finance various public school improvements and incidental expenses, to refund the Poway Unified School District Community Facilities District No. 1, Special Tax Bonds, Series A, originally issued in the aggregate principal amount of \$8,000,000 (the "Prior Bonds") and to pay costs of issuance of the Bonds. The Prior Bonds were issued and delivered to finance certain school facilities, together with appurtenant work and incidental expenses needed to serve property located within Community Facilities District No. 1 of the Poway Unified School District ("CFD No. 1"). CFD No. 1 is located in the City of San Diego, California.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Bond Indenture, dated as of January 1, 1998 (the "Indenture"), by and between CFD No. 1 and First Trust of California, National Association, as fiscal agent (the "Fiscal Agent"). The Bonds are payable from revenues derived from a certain annual Special Tax (as defined herein) to be levied on and collected from the owners of the taxable land within CFD No. 1 and from certain other funds pledged under the Indenture, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the Board of Education of the School District and the qualified electors within CFD No. 1. See "SOURCES OF PAYMENT FOR THE BONDS" and Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" herein.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on October 1, 1998 and semiannually thereafter on each April 1 and October 1. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General Provisions" and "BOOK-ENTRY-ONLY SYSTEM" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE POWAY UNIFIED SCHOOL DISTRICT, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT OR CFD NO. 1 BUT ARE LIMITED OBLIGATIONS OF CFD NO. 1 PAYABLE SOLELY FROM SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to redemption as set forth herein. See "THE BONDS — Redemption" herein.

The scheduled payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued concurrently with the Bonds by MBIA Insurance Corporation.



The purchase of the Bonds involves certain risks. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
1998	\$2,720,000	4.250%	3.599%	2006	\$3,475,000	5.000%	4.200%
1999	1,855,000	4.000	3.700	2007	3,775,000	5.000	4.250
2000	2,040,000	4.000	3.750	2008	4,095,000	5.000	4.350
2001	2,235,000	4.000	3.850	2009	4,435,000	5.000	4.450
2002	2,440,000	4.500	3.950	2010	4,790,000	5.000	4.550
2003	2,670,000	5.000	4.050	2011	5,170,000	4.600	4.650
2004	2,925,000	5.000	4.100	2012	5,545,000	4.625	4.750
2005	3,190,000	5.000	4.150				

\$10,875,000 4.750% Term Bonds Due October 1, 2014, Yield 4.900%

\$10,310,000 4.875% Term Bonds Due October 1, 2017, Yield 5.030%

\$7,455,000 4.750% Term Bonds Due October 1, 2023, Yield 5.080%

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Luce, Forward, Hamilton & Scripps LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for CFD No. 1 by Luce, Forward, Hamilton & Scripps LLP, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about February 4, 1998.

Stone & Youngberg LLC

**POWAY UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA**

BOARD OF EDUCATION

Steve McMillan, President
Penny Ranftle, Vice President
Charlene Zettel, Clerk
Jeff Mangum, Member
Andrew Patapow, Member

SCHOOL DISTRICT OFFICIALS

Dr. Robert L. Reeves, Superintendent
Dr. Robert Cornelius, Assistant Superintendent, Business Support Services
Alicia Kroese, Director of Planning, Business Support Services

BOND COUNSEL

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San Diego, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc.
Newport Beach, California

VERIFICATION AGENT

Grant Thornton LLP
Minneapolis, Minnesota

FISCAL AGENT AND ESCROW AGENT

First Trust of California, National Association
Los Angeles, California

VALUATION CONSULTANT

Stephen G. White, MAI
Fullerton, California

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Except where otherwise indicated, all information contained in this Official Statement has been provided by the School District and CFD No. 1. No dealer, broker, salesperson or other person has been authorized by the School District, CFD No. 1, the Fiscal Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the School District, CFD No. 1, the Fiscal Agent or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the School District, CFD No. 1, the Fiscal Agent or the Underwriter. 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, create any implication that there has been no change in the affairs of the School District or any other parties described herein since the date hereof. All summaries of the Indenture or other documents 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. Reference is hereby made to such documents on file with the School District for further information in connection therewith.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.



COMMUNITY FACILITIES DISTRICT
NO. 1 OF THE POWAY UNIFIED
SCHOOL DISTRICT

DATE FLOWN: JANUARY 18, 1997
PHOTO OF: 2

COMMUNITY FACILITIES DISTRICT
NO. 1 OF THE POWAY UNIFIED
SCHOOL DISTRICT
DATE FLOWN: JANUARY 18, 1997
PHOTO 2 OF 2



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\$80,000,000
POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1
SERIES 1998 SPECIAL TAX BONDS

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance of the Poway Unified School District Community Facilities District No. 1, in the aggregate principal amount of \$80,000,000 (the "Bonds"). The proceeds of the Bonds will be used to finance certain public capital school improvements, to refund the Poway Unified School District Community Facilities District No. 1 Special Tax Bonds, Series A, originally issued in the aggregate principal amount of \$8,000,000 (the "Prior Bonds"), to pay incidental expenses and to pay costs of issuance of the Bonds. See "PLAN OF REFUNDING."

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the "Act"), and pursuant to a Bond Indenture, dated as of January 1, 1998, (the "Indenture"), by and between Poway Unified School District Community Facilities District No. 1 ("CFD No. 1"), and First Trust of California, National Association, as fiscal agent (the "Fiscal Agent").

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 and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in Appendix C—"SUMMARY OF THE INDENTURE - Definitions" herein.

CFD No. 1

CFD No. 1 was formed and the Bonds are being issued pursuant to the Act. The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

CFD No. 1 includes several non-contiguous areas of land located in that portion of the Poway Unified School District (the "School District") which is within the boundaries of the City of San Diego. CFD No. 1 currently includes approximately 9,446 taxable residential units. CFD No. 1 is located on Interstate 15 approximately twenty miles northeast of the City of San Diego in the northeastern portion of San Diego County. See "THE COMMUNITY FACILITIES DISTRICT" herein.

Pursuant to the Act, on March 28, 1987, the Board of Education of the Poway Unified School District adopted six resolutions (collectively, the "Resolutions of Intention") stating, among other things, its intention to form CFD No. 1, to authorize the levy of a special tax on the taxable property within CFD No. 1 and to incur bonded indebtedness for the purpose of financing the acquisition, construction and equipping of certain public school improvements to serve the area within and around CFD No. 1. Subsequent to a noticed public hearing, the Board adopted two resolutions on May 26, 1987 (collectively, the "Resolution of Formation") which established CFD No. 1 and authorized the levy of a special tax within CFD No. 1, determined the necessity to incur bonded indebtedness within CFD No. 1, called an election within CFD No. 1 on the proposition of incurring bonded indebtedness and levying a special tax, and ordered certain changes to the CFD proceedings and Resolution of Intention and to the CFD Report, and, on July 13, 1987, the Board of Education ordered certain boundary changes to CFD No. 1.

On August 25, 1987, an election was held within CFD No. 1 in which the eligible voters, which were the owners of land included within the boundaries of CFD No. 1, approved by more than a two-thirds vote the proposition authorizing the issuance of bonds in an aggregate principal amount not to exceed \$138,251,618 in 1986-87 dollars to finance the acquisition, construction and equipping of certain public school facilities to serve the area within CFD No. 1, which authorized bond amount has been calculated by CFD No. 1 to equal \$103,315,484 as of the date hereof, and \$23,315,484 following the issuance of the Bonds, subject to inflationary adjustment. On September 19, 1987, the Board of Education approved and authorized the execution of a Mitigation Agreement pertaining to CFD No. 1 by and between the School District and Carmel Mountain Ranch, Genstar Southwest Development and Pardee Construction (each a "Mitigation Agreement" and, collectively, the "Mitigation Agreements"), declared the results of the election and established conditions precedent to the issuance of bonds of CFD No. 1. On October 5, 1987, the Board of Education, acting as the legislative body of CFD No. 1, adopted Ordinance No. 1-88 providing for the rate and method of apportionment and levying of the Special Tax, which Ordinance was amended by Ordinance No. 98-1, adopted by the Board on November 17, 1997 (collectively, the "Ordinance").

The Mitigation Agreements require that, under certain circumstances, CFD No. 1 reduce Special Taxes of CFD No. 1 and the total authorized bond amount for CFD No. 1 if other sources of funding are used for constructing schools within CFD No. 1. The Board reduced CFD No. 1 Special Tax rates on June 26, 1995 pursuant to its Resolution No. 70-95, which reduced rates are reflected in the Revised Rate and Method of Apportionment set forth as Appendix A (the "Revised Rate and Method of Apportionment") and in the various tables herein projecting future Special Tax revenues. See "Sources of Payment for the Bonds" below regarding future Special Tax reductions.

Pursuant to a resolution adopted on August 26, 1991, the Board of Education, acting as the legislative body of CFD No. 1, authorized the issuance and delivery of the Prior Bonds. On December 15, 1997, the Board of Education, acting as the legislative body of CFD No. 1, adopted its Resolution No. 52-98 authorizing the issuance of the Bonds. The Bonds are being issued and delivered pursuant to the provisions of the Act and the Indenture to finance public school facilities and to refund the Prior Bonds. The Bonds are being sold pursuant to a Bond Purchase Agreement between the Underwriter and CFD No. 1.

Sources of Payment for the Bonds

As used in this Official Statement, the term "Special Tax" is that tax which has been authorized pursuant to the Act to be levied against certain land within CFD No. 1 pursuant to the Act and in accordance with the rate and method of apportionment of Special Taxes approved by the qualified electors of CFD No. 1, all as provided in the Ordinance. Under the Indenture, CFD No. 1 has pledged to repay the

Bonds from all Net Taxes and certain amounts on deposit under the Indenture. Net Taxes are defined to include all Special Taxes levied and received by CFD No. 1, and proceeds from the sale of property sold as a result of foreclosure of the lien of the Special Tax and proceeds from any security for payment of Special Taxes in lieu of foreclosure, minus the Administrative Expense Requirement (as defined in Appendix C hereto). CFD No. 1 is permitted pursuant to the Indenture to waive penalties and interest on the delinquent Special Taxes which are the subject of the foreclosure action and costs of collecting the Special Taxes. See "APPENDIX C - SUMMARY OF THE INDENTURE - Covenants - Commence Foreclosure Proceedings."

The Special Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent, including amounts held in the Reserve Fund established under the Indenture and the proceeds, if any, from foreclosure sales of land within CFD No. 1. See "SOURCES OF PAYMENT FOR THE BONDS."

Under the Indenture, CFD No. 1 has reserved the right to amend the rate and method of apportionment, without the consent of the owners of the Bonds, to reduce the maximum Special Tax rates from their current levels but in no event to rates which would prohibit CFD No. 1 from levying the Special Tax in any Fiscal Year on then existing Developed Property (as defined in Appendix A hereto) at rates in each Fiscal year at least equal to 125% of annual debt service on the Bonds outstanding as of the date of such reduction. *It should be noted that, since a portion of the property in CFD No. 1 which may become Developed Property is currently undeveloped, the maximum Special Taxes which could be levied on property which is currently Developed Property do not yet provide such coverage.* The School District has not declared any current intention to reduce maximum Special Tax rates; however, the District expects to reduce Initial Special Tax rates subject to the foregoing limitation, in conjunction with the reduction of the maximum aggregate principal amount of bonds authorized to be issued by CFD No. 1, in the event funds to finance school facilities in CFD No. 1 are received from the State of California. See "SOURCES OF PAYMENT FOR THE BONDS - Special Taxes."

The assessed value of the parcels upon which the Special Tax was levied within CFD No. 1 for fiscal year 1997-98 as set forth on the last equalized assessment roll prepared by the San Diego County Assessor was \$1,645,714,088, which results in an overall Developed Property estimated assessed value-to-lien ratio of approximately 20 to 1 for issued direct and overlapping land secured bonded indebtedness (including the Bonds). The Revised Rate and Method of Apportionment provides that no tax shall be levied on commercial and/or industrial property, and categorizes residential properties as Developed Property or Undeveloped Property. The rate and method of apportionment prohibits the levy of Special Taxes on Undeveloped Property unless the maximum Special Taxes that could be levied on Developed Property (including without limitation increases that would result from the application of the maximum escalators), together with all Surplus Funds (as defined in the rate and method of apportionment), are insufficient in any fiscal year to pay principal of and interest on bonds of CFD No. 1 and to make required deposits to reserve funds therefor. The Special Tax for each parcel of Developed Property is subject to escalation in an amount not to exceed 2% per Fiscal Year, provided that, commencing in 1990, the Board may escalate the annual Special Tax up to an additional 2% for each Fiscal Year only if the Board determines prior to the commencement of each such Fiscal Year at an annual public hearing on such matter duly called and noticed, that such rate of escalation is necessary to pay debt service, fund any required sinking fund, and finance school facilities for such Fiscal Year. No Special Tax has been levied on Undeveloped Property since the initial Special Tax levy in fiscal year 1988-89 and, due to the foregoing public hearing requirement, the condition that Surplus Funds (including Developed Property Special Taxes escalated at

the foregoing 4% escalation rate) must be determined to be inadequate to meet debt service needs and the expectation that Developed Property Special Taxes will be sufficient to meet the financing needs of CFD No 1, the School District does not expect to levy any Special Taxes on Undeveloped Property throughout the term of the Bonds. See "THE COMMUNITY FACILITIES DISTRICT - Estimated Assessed Value-to-Lien Ratios and Tax Burdens" herein. There is no assurance that the parcels within CFD No. 1 can be sold for their assessed value or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the landowners within CFD No. 1. See "SPECIAL RISK FACTORS - Property Values" herein.

CFD No. 1 may issue additional indebtedness secured by the Special Taxes on a parity with the Bonds under the circumstances set forth in the Indenture for the issuance of Additional Bonds. Following the issuance of the Bonds, CFD No. 1 has determined that it will have remaining bond authorization in the aggregate principal amount of \$23,315,484, subject to escalation. Additionally, other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may be levied on the property within CFD No. 1. See "SOURCES OF PAYMENT FOR THE BONDS - Issuance of Additional Bonds" and "SPECIAL RISK FACTORS - Direct and Overlapping Indebtedness" herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE POWAY UNIFIED SCHOOL DISTRICT NOR GENERAL OBLIGATIONS OF CFD NO. 1, BUT ARE LIMITED OBLIGATIONS OF CFD NO. 1 PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Description of the Bonds

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds.

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry-only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described herein. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds are subject to optional and mandatory redemption as described herein. For more complete descriptions of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE BONDS" and Appendix C - "SUMMARY OF THE INDENTURE" herein.

Tax Exemption

In the opinion of Bond Counsel, under existing laws, regulations, rulings and court decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Set

forth in Appendix B is the opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see "TAX EXEMPTION" herein.

Professionals Involved in the Offering

First Trust of California, National Association, Los Angeles, California, will act as Fiscal Agent under the Indenture and as the initial Dissemination Agent under the Continuing Disclosure Agreement. Stone & Youngberg LLC is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Luce, Forward, Hamilton & Scripps LLP, San Diego, California, Bond Counsel. Certain legal matters will be passed on for CFD No. 1 by Luce, Forward, Hamilton & Scripps LLP, San Diego, California, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Other professional services have been performed by David Taussig & Associates, Inc. Newport Beach, California, as Special Tax Consultant, Stephen G. White, Fullerton, California, as Valuation Consultant, and Grant Thornton LLP, Minneapolis, Minnesota, as Verification Agent.

For information concerning respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see "FINANCIAL INTERESTS" herein.

Continuing Disclosure

CFD No. 1 has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE" and APPENDIX E herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the continuing disclosure agreement pursuant to which such reports are to be made.

Bond Owners' Risks

Certain events could affect the ability of CFD No. 1 to pay the principal of and interest on the Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the 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 Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the Constitution and laws of the State as well as the proceedings of the School District, acting as the legislative body of CFD No. 1, are qualified in their entirety by references to such

documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

Copies of the Indenture, the Continuing Disclosure Agreement, the Escrow Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to CFD No. 1 of a charge for copying, mailing and handling) for delivery from CFD No. 1 at Poway Unified School District, 13626 Twin Peaks Road, Poway, California 92064-3098, Attention: Dr. Robert Cornelius, Assistant Superintendent, Business Support Services.

PLAN OF REFUNDING

The Bonds are being issued, in part, to refund the Poway Unified School District, Community Facilities District No. 1 Special Tax Bonds, Series A, originally issued in the aggregate principal amount of \$8,000,000, of which \$7,090,000 currently remain outstanding (the "Prior Bonds"). Pursuant to an escrow agreement, dated as of January 1, 1998 (the "Escrow Agreement"), by and between First Trust of California, National Association, as escrow agent (the "Escrow Agent"), and CFD No. 1, a portion of the net proceeds derived from the sale of the Bonds are to be deposited into the Escrow Fund established pursuant to the Escrow Agreement (the "Escrow Fund"). Further, CFD No. 1 will direct the transfer of certain moneys on deposit with the fiscal agent for the Prior Bonds to the Escrow Agent to be deposited into the Escrow Fund.

Moneys in the Escrow Fund shall be in an amount necessary, as verified by Grant Thornton LLP (the "Verification Agent"), to pay the principal of and interest and redemption premium on the Prior Bonds through retirement on October 1, 1998, and such moneys shall be invested by the Escrow Agent in "federal securities" or held uninvested in cash, all as further provided in the Escrow Agreement. Any such investment shall mature so as to insure that such moneys, and any interest earned thereon, are available for the purpose of retiring the Prior Bonds through said date.

As a result of the deposit and application of funds as provided for in the Escrow Agreement, assuming the accuracy of the Verification Agent's computations, the obligation to make payments of the principal of, premium, if any, and interest on the Prior Bonds will be defeased and the Prior Bonds will be retired on October 1, 1998.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Bond proceeds.

Sources:

Principal Amount of the Bonds	\$80,000,000.00
Plus: Premium	787,158.95
Plus: Funds from Prior Bonds	876,431.00
Plus: CFD No. 1 Funds	<u>3,000,000.00</u>
Total	<u>\$84,663,589.95</u>

Uses:

Improvement Fund	\$69,311,637.04
Escrow Fund	7,549,504.44
Reserve Fund ⁽¹⁾	6,225,748.47
Administrative Expense Fund	100,000.00
Costs of Issuance ⁽²⁾	840,700.00
Underwriter's Discount	<u>636,000.00</u>
Total	<u>\$84,663,589.95</u>

⁽¹⁾ Equal to 125% of Average Annual Debt Service (as defined in Appendix C) on the Bonds.

⁽²⁾ Includes a municipal bond insurance premium and other related costs of issuance.

THE BONDS

Authority for Issuance

The Bonds will be issued pursuant to the Act and the Indenture.

Purpose of the Bonds

The Bonds will be issued to provide funds to: (i) finance the costs of constructing and/or acquiring the sites for the following proposed schools: the Creekside Elementary School, the Shoal Creek Elementary School, the South Middle School and a high school facility serving the District (collectively, the "Facilities"); (ii) refund the Prior Bonds; and (iii) pay costs related to the issuance of the Bonds. See "ESTIMATED USES OF FUNDS."

Description of the Bonds

The Bonds will be issued as fully registered bonds without coupons in denominations of \$5,000 and any integral multiple thereof (not exceeding the principal amount maturing at any one time), and shall be dated the date of delivery thereof. The Bonds will be issued in book-entry only form and The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds. So long as the Bonds are held in book-entry only form, principal of, premium, if any, and interest on the Bonds will be paid directly to DTC for distribution to the beneficial owners of the Bonds in accordance with the procedures adopted by DTC. See "BOOK-ENTRY ONLY SYSTEM" herein. The Bonds will mature on October 1, in the principal amounts and years, and bearing rates of interest, as shown on the cover of this Official Statement.

Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing on October 1, 1998 (each, an "Interest Payment Date") and will be computed on the basis of a 360-day year consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month preceding an Interest Payment Date whether or not such day is a business day (the "Record Date") preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in a default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest shall be payable with respect to each Bond on each Interest Payment Date until the principal sum of that Bond has been paid; provided, however, that if at the maturity date of any Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof, in full accordance with terms of the Indenture, such Bond shall then cease to bear interest.

The Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Fiscal Agent. Interest on any Bond shall be paid to the person whose name shall

appear in the Bond Register as the owner of such Bond 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 on such Interest Payment Date by first class mail to such Bondowner at his or her address as it appears on the Bond Register, or, upon the written request delivered to the Fiscal Agent, by the applicable Record Date, of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, or, if the Fiscal Agent on behalf of the District is the Owner, by wire transfer on such Interest Payment Date in immediately available funds to an account in the continental United States designated by such Owner.

Redemption

Optional Redemption. The Bonds maturing on or after October 1, 2009 are subject to optional redemption by CFD No. 1 prior to their respective maturity dates, as a whole or in part on any Interest Payment Date on or after April 1, 2008, from funds derived by CFD No. 1 from any source of available funds, among maturities as directed by CFD No. 1, or in the absence of direction, in inverse order of maturity and by lot within a maturity, at the following redemption prices (computed upon the principal amount of the Bonds or portions thereof called for redemption) together with accrued interest to the date fixed for redemption, as set forth below:

<u>Redemption Date</u>	<u>Redemption Price</u>
April 1, 2008 or October 1, 2008	102%
April 1, 2009 or October 1, 2009	101%
April 1, 2010 and thereafter	100%

In the event CFD No. 1 elects to redeem Bonds as provided above, CFD No. 1 shall give written notice to the Fiscal Agent of its election to so redeem, the redemption date and the principal amount of the Bonds to be redeemed. The notice to the Fiscal Agent shall be given at least 60 but no more than 90 days prior to the redemption date or such shorter period as shall be acceptable to the Fiscal Agent in its sole discretion.

Mandatory Sinking Fund Redemption. The outstanding Term Bonds maturing on October 1, 2014 (the "2014 Term Bonds"), the outstanding Term Bonds maturing on October 1, 2017 (the "2017 Term Bonds") and the outstanding Term Bonds maturing on October 1, 2023 (the "2023 Term Bonds") will be called before maturity and redeemed, from the mandatory sinking fund redemption payments (the "Sinking Fund Payments") on each October 1 on or after October 1, 2013, October 1, 2015, and October 1, 2018, respectively, by lot, without premium, at the principal amount thereof together with accrued interest thereon to the date fixed for redemption, as follows:

Sinking Fund Payment Schedule
Term Bonds Maturing October 1, 2014

Sinking Fund Payment Date (<u>October 1</u>)	Sinking Fund <u>Payment</u>
2013	\$5,680,000
2014 *	5,195,000

*Maturity.

Sinking Fund Payment Schedule
Term Bonds Maturing October 1, 2017

Sinking Fund Payment Date (October 1)	Sinking Fund Payment
2015	\$4,240,000
2016	3,235,000
2017*	2,835,000

*Maturity.

Sinking Fund Payment Schedule
Term Bonds Maturing October 1, 2023

Sinking Fund Payment Date (October 1)	Sinking Fund Payment
2018	\$2,545,000
2019	1,980,000
2020	1,350,000
2021	780,000
2022	610,000
2023*	190,000

*Maturity.

If during the fiscal year immediately preceding one of the redemption dates described above, CFD No. 1 elects to purchase one or more of the applicable Term Bonds subject to redemption, at least 30 days prior to the redemption date CFD No. 1 shall notify the Fiscal Agent as to the principal amount purchased and the amount of Term Bonds so purchased will be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming mandatory sinking fund redemption payment. All Bonds purchased by CFD No. 1 pursuant to the Indenture will be canceled and destroyed. To the extent there is a redemption of Bonds pursuant to the Indenture, the applicable Sinking Fund Payment schedule set forth above will be proportionately reduced pursuant to calculations made by the Fiscal Agent.

Selection of Bonds for Redemption

If less than all of the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or a multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. The Fiscal Agent shall promptly notify CFD No. 1 in writing of the Bonds, or portions thereof, selected for redemption.

Purchase of Bonds in Lieu of Redemption.

In lieu or partially in lieu of any call and redemption, moneys deposited in the Redemption Fund may be used to purchase Outstanding Bonds that were to be redeemed with such funds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by CFD No. 1 prior to the selection of Bonds for redemption by the Fiscal Agent, at public or private sale as and when and at such prices as CFD No. 1 may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, and, in the case of funds in an Optional Redemption account, the applicable premium to be paid in connection with the proposed redemption. Any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Bond Fund for payment of interest on the next following Interest Payment Date.

Notice of Redemption

So long as the Bonds are held in book-entry form, notice of redemption will be sent by the Fiscal Agent only to DTC, or its nominee, and not to the owners of any beneficial interest in the Bonds. It is the responsibility of DTC and its participants and not CFD No. 1 or the Fiscal Agent to deliver notices of redemption to the owners of beneficial interests in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" below.

Notice of redemption, containing the information required by the Indenture, will be given by the Fiscal Agent in the name of CFD No. 1. The Indenture requires that the notice of redemption shall (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all the Bonds subject to redemption, or all the Bonds of one maturity, are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be surrendered for redemption; and (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent is required by the Indenture to mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond of notice of such redemption shall not be a condition precedent thereto, and neither the failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as provided in the Indenture shall be conclusive as against all parties.

Notice of redemption having been duly given and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) the Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture, anything in the Indenture or in the Bonds to the contrary notwithstanding.

(b) upon presentation and surrender thereof at the Principal Office of the Fiscal Agent, the redemption price of such Bonds will be paid to the Owner thereof;

(c) from and after the redemption date the Bonds or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds or portions thereof will cease to bear further interest; and

(d) from and after the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

Registration of Exchange or Transfer

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. Bonds may be exchanged at said principal office for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. The Fiscal Agent will not charge for any new Bond issued upon any transfer or exchange but may require the Bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever any Bond or Bonds shall be surrendered for registration of transfer or exchange, the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

The School District, CFD No. 1 and the Fiscal Agent may treat the registered Owner of any Bond, as shown on the registration books kept by the Fiscal Agent, as the absolute Owner of such Bond, whether such Bond shall be overdue or not, and none of the School District, CFD No. 1 nor the Fiscal Agent shall be affected by any notice or knowledge to the contrary.

BOOK-ENTRY-ONLY SYSTEM

As noted above, DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear

through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Transfers of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual owner of each security ("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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity 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. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to CFD No. 1 as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest on the Bonds will be paid to DTC. DTC's practice is to credit Direct Participants' accounts on the date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on an Interest Payment Date. 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 CFD No. 1, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of CFD No. 1 or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services or securities depository with respect to the Bonds at any time by giving reasonable notice to CFD No. 1 or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

CFD No. 1 may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

CFD No. 1 cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that CFD No. 1 believes to be reliable, but CFD No. 1 takes no responsibility for the accuracy thereof.

Discontinuation of Book-Entry-Only System; Payments to Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the principal of the Bonds is payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent in Los Angeles, California. Interest on the Bonds is payable on each Interest Payment Date to the registered owner thereof as of the close of business on the Record Date immediately preceding each Interest Payment Date, such interest to be paid by check of the Fiscal Agent, mailed by first-class mail to the registered owner at his address as it appears on the Register (or at such other address as is furnished to the Fiscal Agent in writing by the registered owner). A registered owner of \$1,000,000 or more in principal amount of Bonds may be paid interest by wire transfer in immediately available funds to an account in the United States if the registered owner makes a written request of the Fiscal Agent no later than the applicable Record Date. The principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

SOURCES OF PAYMENT FOR THE BONDS

As described below, the principal of and interest on the Bonds are payable from an irrevocable first lien on the Net Taxes and the monies on deposit in the funds and accounts under the Indenture other than the Administrative Expense Fund, the Improvement Fund, the Special Revenue Fund and the Rebate Fund. "Net Taxes" is defined in the Indenture to mean the amount of all Special Taxes levied and received by CFD No. 1 and proceeds from the sale of property collected pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes in lieu of foreclosure, less the Administrative Expense Requirement.

Under the Indenture, CFD No. 1 is authorized to issue additional indebtedness from time to time, which will be secured on a parity with the Bonds (the "Additional Bonds"). See "- Issuance of Additional Bonds" below.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE POWAY UNIFIED SCHOOL DISTRICT, THE COUNTY OF SAN DIEGO, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE SCHOOL DISTRICT OR CFD NO. 1 BUT ARE LIMITED OBLIGATIONS OF CFD NO. 1 PAYABLE SOLELY FROM SPECIAL TAXES AND

OTHER AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

Special Taxes

In accordance with the provisions of the Act, the Board of Education established CFD No. 1 on May 26, 1987 for the purpose of financing the acquisition, construction and installation of certain public school improvements, as provided in the Resolution of Formation. At the time of adoption of the Resolution of Formation, the Board of Education also voted to submit a proposition to the qualified electors of CFD No. 1 to authorize the issuance of an aggregate principal amount of bonds not to exceed \$138,251,618 in 1986-87 dollars, subject to escalation as described below under the caption "Issuance of Additional Bonds," and the annual levy and collection of the Special Tax pursuant to the terms and conditions of the Act. The levy of the Special Tax and the rate and method of apportionment of the Special Tax were approved by more than two-thirds of the votes cast by the qualified electors within CFD No. 1 on August 25, 1987. On October 5, 1987, the Board of Education, acting as the legislative body of CFD No. 1 (the "Board"), enacted Ordinance No. 1-88, and on November 17, 1997, the Board enacted Ordinance No. 98-2 amending and restating Ordinance No. 1-88 (collectively, the "Ordinance"), which Ordinance provides for the levying of the Special Tax. On June 26, 1995 the Board adopted Resolution No. 70-95 which implemented a reduction to the rate and method of apportionment of the Special Tax to reduce Special Taxes for Developed Property and provided that any escalation of Special Taxes for Fiscal Years after 1995-96 shall be calculated based on the revised Annual Special Tax approved by Resolution No. 70-95. The rate and method of apportionment of the Special Tax incorporating the Special Tax reductions approved by the Board pursuant to Resolution No. 70-95 (the "Revised Rate and Method of Apportionment") is set forth in Appendix A hereto.

The Board of Education, as the legislative body of CFD No. 1, has covenanted in the Indenture each year to levy Special Taxes up to the maximum rates permitted under the Revised Rate and Method of Apportionment in an amount anticipated to be sufficient, together with any moneys on deposit in the Special Tax Fund and, with respect to the final Bond Year, in the Reserve Fund, and anticipated to be available in the next succeeding Bond Year, to pay (i) the principal of, premium, if any, and interest on the Bonds due in such Bond Year, (ii) Administrative Expenses due or coming due, plus (iii) the amount, if any, necessary to replenish the Reserve Fund to an amount equal to the Reserve Requirement established by the Indenture. See the subsection "- Reserve Fund" below.

Notwithstanding the foregoing, the Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Revised Rate and Method of Apportionment. See Appendix A - "REVISED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" hereto. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes" herein.

Method of Apportionment of Special Tax

The Revised Rate and Method of Apportionment provides that no Special Tax shall be levied on commercial and/or industrial property and that all residential parcels in CFD No. 1 not otherwise exempt are to be classified for each fiscal year as Developed Property or Undeveloped Property. Developed Property includes any lot or parcel of land in CFD No. 1 which is used, zoned, or designated for residential purposes on the applicable general plan, specific plan or community plan which the City of San Diego utilizes and relies upon in granting building permits for residential development, and for which a building permit for a residential dwelling unit(s) has been issued by March 1st of the prior fiscal year ("Developed

Property"). Developed Property is then assigned to one of three tax classes: single family detached, single family attached, or apartments/mobilehome. Any dwelling unit approved by the City of San Diego as a condominium will be taxed as an apartment if such dwelling unit is utilized as an apartment until such time as the County Assessor assigns a separate assessor's parcel number to such dwelling unit, after which time the dwelling unit will be taxed as single family attached Developed Property.

Commencing July 1, 1988, the Initial Special Tax rates (as provided in the Revised Rate and Method of Apportionment of Special Tax) have been and shall be, subject to escalation each fiscal year by an amount equal to the percentage increase in the Building Cost Index (the Building Cost Index for the City of Los Angeles based upon the most recently released data prior to June 30th of each fiscal year as set forth in the Engineering News-Record published in the McGraw-Hill Construction Weekly) for the preceding fiscal year multiplied times the Initial Special Tax for such preceding fiscal year. Maximum Special Taxes are determined based on the square footage of the dwelling unit and the year of initial taxation by CFD No. 1. No parcel of Developed Property shall be taxed by CFD No. 1 for a period in excess of 25 years. Commencing with the levy of the Initial Special Tax on a parcel, the maximum Special Tax on Developed Property increases at a rate of 2% per year compounded annually, unless a higher escalator (not to exceed 4% per year) is approved by the Board at an annual public hearing.

Undeveloped Property includes all nonexempt parcels not classified as Developed Property ("Undeveloped Property") and is subject to a per acre Special Tax, not to exceed \$750 per acre, but only to the extent necessary to assure payment of principal and interest on any CFD No. 1 bonds and replenishment of any reserve for CFD No. 1 bonds after taking into account the Special Taxes levied on Developed Property, including maximum escalators, and any Surplus Funds (as defined in the Revised Rate and Method of Apportionment of the Special Tax) on deposit as of the July 1 preceding the levy. All of the property in CFD No. 1, unless used for commercial or industrial purposes, or Undeveloped Property (other than under the circumstances described above), or owned by the State, federal or other local governments or otherwise exempted by law, is to be taxed for the purposes, to the extent and in the manner provided in the Revised Rate and Method of Apportionment of Special Taxes. Under the Revised Rate and Method of Apportionment of Special Tax, an owner of a parcel may not prepay its share of the total remaining Special Tax obligation for such parcel.

UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR'S PARCEL EXCEED THE MAXIMUM RATES AS SET FORTH IN APPENDIX A HERETO. SEE APPENDIX A - "REVISED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" herein.

Collection of Special Taxes

Commencing in Fiscal Year 1988-89, the Special Taxes have been levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as ad valorem property taxes. Under the Indenture, Gross Taxes will be deposited in the Special Tax Fund to be held by the Fiscal Agent. The Indenture requires the Fiscal Agent to transfer monies from the Special Tax Fund as follows: first, \$100,000, increased by two percent (2%) per Bond Year, to the Administrative Expense Fund; second, to the Interest Account of the Bond Fund as such revenues are received in an amount which, together with amounts then on deposit in the Bond Fund, will be sufficient to pay both interest payments due on the Bonds in such Bond Year; third, after the required amount has been deposited to the Interest Account of the Bond Fund, to the Principal Account of the Bond Fund the total amount needed to pay the principal payment due on the following October 1 of such Bond Year on the Outstanding Bonds, other than any Term Bonds; fourth to the Sinking Fund Redemption Account of the Redemption Fund established for each series of Bonds the total amount needed to pay the Sinking Fund payment due on the following

October 1 of such Bond Year; fifth, to the Account of the Reserve Fund established for the Bonds and for each series of Parity Bonds for which a Reserve Requirement has been established, the amount required to bring the balance in each Account to its proportionate share of the Reserve Requirement; sixth, to the Administrative Expense Fund the amount of any Administrative Expenses for such Bond Year in excess of the amount deposited pursuant to the first step above, such amount to be directed by the Administrator; seventh, to the Rebate Fund the amount needed for payment of any rebate owing to the federal government as of such date; and eighth, any remaining portion following the completion of the above deposits for any Bond Year to the Special Revenue Fund.

The amounts in the Special Revenue Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by CFD No. 1 for any lawful purpose. Notwithstanding anything to the contrary contained in the Indenture, the Special Revenue Fund has been established purely for the convenience of CFD No. 1 and may be terminated or modified by the Indenture at any time, without need of obtaining any amendment to the Indenture.

Pursuant to the Indenture, all earnings on all funds and accounts established for a series of Bonds are to be transferred to the Special Tax Fund and immediately deposited in the funds and accounts for the same series of Bonds, except as follows: Earnings on the Administrative Expense Fund, Special Revenue Fund, the Rebate Fund and the Improvement Fund shall be retained therein; and, only to the extent not required to maintain the Reserve Requirement, earnings on the Reserve Fund shall be transferred to the Special Tax Fund and applied as provided above.

Although the Special Taxes will constitute liens on taxed parcels within CFD No. 1, they do not constitute a personal indebtedness of the owners of property within CFD No. 1. Moreover, other liens for taxes and assessments already exist on the property located within CFD No. 1 and others could come into existence in the future in certain situations without the consent or knowledge of CFD No. 1 or the landowners therein. See "SPECIAL RISK FACTORS - Direct and Overlapping Indebtedness" herein. There is no assurance that the owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

Proceeds of Foreclosure Sales

The net proceeds received following a judicial foreclosure sale of land within CFD No. 1 resulting from a landowner's failure to pay the Special Tax when due are pledged to the payment of principal of and interest on the Bonds.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by CFD No. 1 of Special Taxes in an amount which is less than the Special Tax levied, the Board of Education, as the legislative body of CFD No. 1, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, CFD No. 1 has covenanted for the benefit of the owners of the Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings; provided that, notwithstanding the foregoing, CFD No. 1 may elect (1) to defer foreclosure

proceedings on any parcel with a delinquency of \$10,000 or less, so long as the amount in the Reserve Fund is at least equal to the Reserve Requirement, or (2) to accept payment from a property owner of less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency, if permitted by law, if no default exists under the Indenture, or will be cured upon receipt of such payment, and if no default will occur under the Indenture in the Bond Year in which such settlement is entered into. In the event that CFD No. 1 elects to accept a payment under (2) above, any portion of the settlement amount received that exceeds the Special Taxes that are delinquent may be applied to pay Administrative Expenses of CFD No. 1. CFD No. 1 may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Fund at the Reserve Requirement or the reserve balance in any reserve fund established under the Indenture at the required amount. See Appendix C - "SUMMARY OF THE INDENTURE - Covenants of CFD No. 1" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of CFD No. 1. See "SPECIAL RISK FACTORS - Bankruptcy and Foreclosure" herein. Moreover, 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. See "SPECIAL RISK FACTORS - Property Values" herein. Although the Act authorizes CFD No. 1 to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on CFD No. 1 or the School District any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. Additionally, the School District has not covenanted to obligate itself to advance funds to pursue foreclosure, therefore the revenues available for foreclosure costs may be limited to Special Taxes collected by CFD No. 1 for the purpose of paying Administrative Expenses. Such revenues may be inadequate to pursue foreclosure. See also "SPECIAL RISK FACTORS - Proposition 218." The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for ad valorem taxes.

Reserve Fund

In order to secure further the payment of principal of and interest on the Bonds, CFD No. 1 is required, upon delivery of the Bonds, to deposit the amount of \$6,225,748.47 in the Reserve Fund held by the Fiscal Agent. The Indenture provides that the amount in the Reserve Fund will be maintained at the Reserve Requirement, which is defined as an amount as of any date of calculation equal to the least of (i) Maximum Annual Debt Service (as defined in the Indenture) for the Bonds and Additional Bonds then Outstanding under the Indenture, (ii) 10 percent of the original principal amount of the Bonds and any Additional Bonds, less original issue discount, if any, plus original issue premium, if any, or (iii) 125 percent of Average Annual Debt Service (as defined in the Indenture) on the Bonds and Additional Bonds then Outstanding under the Indenture. Subject to the limits on the maximum annual Special Tax which may be levied within CFD No. 1, as described in Appendix A, CFD No. 1 has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Fund at the Reserve Requirement while any Bonds are outstanding. Amounts in the Reserve Fund are to be applied to the payment of (i) debt service on the Bonds to the extent other monies are not available therefor, (ii) arbitrage rebate, and (iii) the principal and interest due in the final year of maturity of the Bonds. See Appendix C - "SUMMARY OF THE INDENTURE - Reserve Fund" herein.

CFD No. 1 has the right at any time to release funds from the Reserve Fund for any series of Bonds, in whole or in part, by tendering to the Fiscal Agent: (1) a Reserve Policy, (2) an opinion of Bond Counsel stating that such release will not, in and of itself, cause interest on the series of Bonds with respect to which such Reserve Policy is tendered, to become includable in gross income for purposes of federal income taxation and (3) the prior written consent of the Insurer; provided, however, that Insurer consent will not be required if the Reserve Policy is a surety bond provided by a bond insurer with a claims-paying ability rated at least "AAA" by S&P and "Aaa" by Moody's at the time the Reserve Policy is issued. Upon tender of such items to the Fiscal Agent, the Fiscal Agent will transfer such funds from the Reserve Fund to the Improvement Fund. Upon expiration of any Reserve Policy, CFD No. 1 will be obligated either (a) to replace such Reserve Policy with a new Reserve Policy or (b) to deposit or cause to be deposited with the Fiscal Agent an amount of funds equal to the Reserve Requirement.

Reserve Policy means a municipal bond insurance policy deposited with the Fiscal Agent pursuant to the Indenture, provided that all of the foregoing requirements are met: and that such Reserve Policy has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released, and the Fiscal Agent is authorized pursuant to the terms of such Reserve Policy to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making permitted Reserve Fund payments as described above.

Issuance of Additional Bonds

CFD No. 1 may, at any time after the issuance and delivery of the Bonds, issue Additional Bonds to refund all or any portion of the Bonds, or, in an amount which does not exceed the currently authorized but unissued bonded indebtedness or indebtedness hereafter approved by the qualified electors of CFD No.1, for any authorized purpose of CFD No. 1, which bonds may be payable solely from and equally secured by a pledge of and lien upon the Special Taxes and amounts in the funds and accounts established under the Indenture other than the Improvement Fund, the Rebate Fund and the Administrative Expense Fund ("Parity Bonds"). Additionally, CFD No. 1 may issue bonds or other obligations which are subordinate to the Bonds at any time for any authorized purpose of CFD No. 1. Following the issuance of the Bonds, CFD No. 1 has determined that it will have remaining bond authorization in the aggregate principal amount of \$23,315,484, subject to escalation annually by an amount equal to the percentage increase in the building cost index for the preceding fiscal year. (For purposes of the foregoing escalation calculation, "Building Cost Index" means the Building Cost Index for the City of Los Angeles based upon the most recently released data prior to June 30th of each fiscal year as set forth in the Engineering News Record (ENR) published in the McGraw-Hill Construction Weekly.)

CFD No. 1 may issue Parity Bonds only under the circumstances and upon compliance with certain provisions set forth in the Indenture, which include in part the following:

CFD No. 1 shall be in compliance with all covenants set forth in the Indenture and any supplement thereto and a certificate of CFD No. 1 to the effect shall have been filed with the Fiscal Agent; provided, however, that Parity Bonds may be issued notwithstanding that CFD No. 1 is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds CFD No. 1 will be in compliance with all such covenants.

Additionally, CFD No. 1 shall have received a certificate from one or more Independent Financial Consultants which, when taken together, certify that (i) on the basis of the parcels of land and improvements existing in CFD No. 1 as of the date of calculation, the amount of the maximum Special Taxes that may be levied on property for which a building permit for residential dwelling unit(s) has been issued by the County of San Diego as of the date of calculation ("Entitled

Property") by CFD No. 1 pursuant to the Act and the applicable resolutions and ordinances of CFD No. 1 in each subsequent Fiscal Year is at least 1.10 times the corresponding Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, explicitly incorporating the effect of any scheduled expiration of taxing authority (i.e. after 25 years) with respect to such parcels of Entitled Property, and assuming an escalation of such Special Taxes not to exceed 2% per annum, and (ii) the fair market value of the Entitled Property in CFD No. 1 subject to the Special Tax, as determined by the assessed valuation of any land in CFD No. 1 subject to the Special Tax is at least 3 times the sum of (A) the aggregate principal amount of all Bonds then Outstanding, plus (B) the aggregate principal amount of the additional Parity Bonds proposed to be issued, plus (C) a portion of the aggregate principal amount of other community facilities district bonds, assessment district bonds, or water district improvement district bonds then outstanding and payable at least partially from special taxes, or assessments to be levied on parcels of land within CFD No. 1 (the "Other Bonds") equal to the aggregate principal amount of Other Bonds multiplied by a fraction, the numerator of which is the amount of special taxes, and assessments, as applicable, levied for the Other Bonds on parcels within CFD No. 1, and the denominator of which is the total amount of special taxes, assessments, ad valorem assessments and stand-by charges levied for the Other Bonds on all parcels of land, based upon information from the most recent available fiscal year. For purposes of making the certifications required by this paragraph, the Independent Financial Consultants may rely on reports or certificates of such other persons as may be acceptable to CFD No. 1, the Bond Insurer, the School District, Bond Counsel and the underwriter of the proposed Parity Bonds. See Appendix C - "SUMMARY OF THE INDENTURE - Conditions for the Issuance of Additional Bonds" herein.

Estimated Debt Service Coverage

The following table illustrates the estimated coverage for the debt service on the Bonds. Estimated coverage is based on receipt by CFD No. 1 of maximum Special Taxes for each 12 month period from parcels that were classified as Developed Property as of October 31, 1997. This table compares the maximum Special Tax capacity, based on the maximum special tax rates which are permitted to be levied on Developed Property pursuant to the Revised Rate and Method of Apportionment (the "Maximum Special Tax Rates"), to the annual debt service on the Bonds and does not reflect the actual Special Taxes that will be levied or collected in any year. Even if the Special Taxes were levied at the Maximum Special Tax Rates in any year, actual collections depend upon the willingness and ability of the owners of property to pay the Special Taxes when due. Numerous factors could affect the timely payment of Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT - Delinquency History" and "SPECIAL RISK FACTORS" herein.

CFD No. 1 has reserved the right to reduce the Maximum Special Tax Rates without the consent of the owners of the Bonds so long as the total amount of Special Taxes that may be levied in any Fiscal Year on Developed Property is not less than 125% of annual debt service on the Bonds and any Additional Bonds Outstanding. The School District staff believes it likely that the legislative body of CFD No. 1 will lower the Maximum Special Tax Rates, but not below the foregoing levels. It should be noted that, since a portion of the property in CFD No. 1 which may become Developed Property is currently undeveloped, the maximum Special Taxes which could be levied on property which is currently classified as Developed Property do not yet provide such coverage.

DEBT SERVICE SCHEDULE AND ESTIMATED COVERAGE

Bond Year Ending (October 1)	Annual Debt Service	Estimated Special Tax ⁽¹⁾	Estimated Debt Service Coverage
1998	\$5,225,559.89	\$5,785,254	110.710%
1999	5,545,313.75	6,142,568	110.770
2000	5,656,113.75	6,265,422	110.772
2001	5,769,513.75	6,390,727	110.767
2002	5,885,113.75	6,518,542	110.763
2003	6,005,313.75	6,648,917	110.717
2004	6,126,813.75	6,781,899	110.692
2005	6,245,563.75	6,917,539	110.759
2006	6,371,063.75	7,055,882	110.748
2007	6,497,313.75	7,197,002	110.768
2008	6,628,563.75	7,340,944	110.747
2009	6,763,813.75	7,487,762	110.703
2010	6,897,063.75	7,637,523	110.735
2011	7,037,563.75	7,790,270	110.695
2012	7,174,743.75	7,946,073	110.750
2013	7,053,287.50	7,807,283	110.689
2014	6,298,487.50	6,974,782	110.737
2015	5,096,725.00	5,643,289	110.723
2016	3,885,025.00	4,303,502	110.771
2017	3,327,318.75	3,684,706	110.741
2018	2,899,112.50	3,201,783	110.440
2019	2,213,225.00	2,448,398	110.625
2020	1,489,175.00	1,646,202	110.544
2021	855,050.00	944,028	110.406
2022	648,000.00	717,539	110.731
2023	199,025.00	224,556	112.828

⁽¹⁾ Estimated Special Tax revenues for bond years ending 1999 through 2023 reflect building permits issued through 10/31/97 and are net of administrative expenses and technical corrections.

Source: Stone & Youngberg, and David Taussig & Associates, Inc. as to the "Estimated Special Tax" data only.

BOND INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Insurer's policy (the "Municipal Bond Insurance Policy").

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that, in the event of any acceleration of the due date of such principal by reason of

mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Fiscal Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

On November 14, 1997, MBIA Inc. announced the signing of a definitive agreement to merge with CapMAC Holdings Inc. ("CHI"), the parent company of Capital Markets Assurance Corporation ("CapMAC"), in a stock-for-stock transaction valued at \$607 million. The announcement also stated that all outstanding policies issued by CapMAC will be backed by the full financial resources of MBIA Inc., and that the agreement is subject to regulatory approvals and approval by CHI shareholders.

As of December 31, 1996, the Insurer had admitted assets of \$4.4 billion (audited), total liabilities of \$3.0 billion (audited), and total capital and surplus of \$1.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1997, the Insurer had admitted assets of \$5.1 billion (unaudited), total liabilities of \$3.4 billion (unaudited), and total capital and surplus of \$1.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service ("Moody's") rates the claims paying ability of the Insurer "Aaa".

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), rates the claims paying ability of the Insurer "AAA".

Fitch IBCS, Inc. (formerly known as "Fitch Investors Service, L.P.") rates the claims paying ability of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.3 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE COMMUNITY FACILITIES DISTRICT

CFD No. 1 includes approximately 9,446 taxable residential units located in the portion of the Poway Unified School District which is within the boundaries of the City of San Diego. CFD No. 1 is located approximately 20 miles northeast of the downtown area of the City of San Diego.

General Description of the Development

The development within CFD No. 1 consists of four, non-contiguous, master planned residential communities, including the Westwood Valley portion of Rancho Bernardo, Penasquitos East, Carmel Mountain Ranch and Sabre Springs. The developments are governed by the general and specific plans indicated in below. Approximately 9,446 of the projected 12,700 residential units for CFD No. 1 have

been completed and sold. The existing residential development within CFD No. 1 consists of 5,552 single family detached units, with home sizes ranging from 1,350 square feet to over 4,600 square feet, 2,028 attached units and 1,866 apartment units.

The development within CFD No. 1 consists of the following master planned residential communities:

(1) Penasquitos East, which is governed by the Penasquitos East Community Plan adopted by the City of San Diego on October 17, 1978, by Resolution No. 222051, together with all amendments thereto.

(2) Sabre Springs, which is governed by the Sabre Springs Community Plan adopted by the City of San Diego on July 1, 1982, by Resolution No. 3914, together with all amendments thereto.

(3) Carmel Mountain Ranch, which is governed by the Carmel Mountain Ranch Community Plan adopted by the City of San Diego on August 14, 1984, by Resolution No. 261374, together with all amendments thereto, and a General Plan amendment adopted by the City on August 14, 1984 by Resolution No. R-261375.

4) Westwood Valley, which is governed by the Rancho Bernardo Community Plan adopted by the City of San Diego on March 28, 1978, by Resolution No. 220568.

1997-98 Special Tax Levy

\$5,922,147 in Special Taxes were levied on parcels within CFD No. 1 for fiscal year 1997-98. All of the foregoing Special Taxes were levied on Developed Property as defined in the Revised Rate and Method of Apportionment for CFD No. 1. La Terraza LLC, the largest single taxpayer in CFD No. 1 in fiscal year 1997-98, was responsible for approximately 1.67% of the total CFD No. 1 Special Tax levy for fiscal year 1997-98.

The table below summarizes the fiscal year 1997-98 CFD No. 1 Special Tax levy made in accordance with the Revised Rate and Method of Apportionment:

**CFD No. 1
1997-98 Special Tax Levy**

Land Use Class ⁽¹⁾	FY 1997/98 Applied Tax Rate	Units Levied	Dollars Levied	Average Maximum Special Tax Rate	FY 1997/98 Levy as Percent of Total
SFD (>2,100 SF)	100.00%	2,967	\$ 2,654,464	\$ 894.66	44.82%
SFD (1,901 - 2,100 SF)	100.00	977	797,711	816.49	13.47
SFD (1,701 - 1,900 SF)	100.00	906	687,924	759.30	11.62
SFD (1,401 - 1,700 SF)	100.00	570	401,143	703.76	6.77
SFD (1,251 - 1,400 SF)	100.00	99	61,001	616.18	1.03
SFD (<1,251 SF)	100.00	30	17,721	590.69	0.30
SFA (>1,400 SF)	100.00	314	184,095	586.29	3.11
SFA (1,251 - 1,400 SF)	100.00	328	183,002	557.93	3.09
SFA (1,101 - 1,250 SF)	100.00	135	73,718	546.06	1.24
SFA (901 - 1,100 SF)	100.00	825	384,018	465.48	6.48
SFA (751 - 900 SF)	100.00	128	54,651	426.96	0.92
SFA (<751 SF)	100.00	160	64,432	402.70	1.09
AMH (>900 SF)	100.00	613	164,624	268.55	2.78
AMH (751 - 900 SF)	100.00	273	65,829	241.13	1.11
AMH (<751 SF)	100.00	<u>597</u>	<u>127,816</u>	<u>214.10</u>	<u>2.16</u>
TOTAL:	NA	8,922	\$ 5,922,147	NA	100.00%

⁽¹⁾ Key: SFD - Single Family Detached
SFA - Single Family Attached
AMH - Apartment/Mobile Home

Source: David Taussig & Associates, Inc.

The table below summarizes the foregoing fiscal year 1997-98 CFD No. 1 Special Tax levy by planned community:

**CFD No. 1
1997-98 Special Tax Levy by Planned Community**

Planning Area	FY 1997/98 Applied Tax Rate	Units Levied	Dollars Levied	Average Maximum Special Tax Rate	FY 1997/98 Levy as Percent of Total
Rancho Bernardo	100.00%	952	\$ 580,292	\$ 609.55	9.80%
Carmel Mountain Ranch	100.00	3,313	1,910,140	576.56	32.25
Sabre Springs	100.00	1,623	1,041,277	641.58	17.58
Penasquitos East	100.00	<u>3,034</u>	<u>2,390,438</u>	<u>787.88</u>	<u>40.36</u>
TOTAL	NA	8,922	\$ 5,922,147	NA	100.00%

Source: David Taussig & Associates, Inc.

Delinquency History

The following table summarizes the Special Tax delinquencies in CFD No. 1 from fiscal year 1991-92 to and including fiscal year 1996-97:

Special Tax Delinquency History of CFD No. 1

Fiscal Year	Aggregate Special Tax	Fiscal Year Amount Delinquent ⁽¹⁾	Fiscal Year Delinquency Rate	Remaining Amount Delinquent as of 6/9/97	Remaining Delinquency Rate as of 6/9/97
1991/1992	\$3,499,213	\$115,033	3.29%	\$ 879	0.03%
1992/1993	4,011,370	146,370	3.65	2,111	0.05
1993/1994 ⁽²⁾	4,570,161	N/A	N/A	3,877	0.08
1994/1995	5,414,341	123,999	2.29	14,278	0.26
1995/1996	5,250,398	85,887	1.64	23,874	0.45
1996/1997	5,489,120	72,523	1.32	72,523	1.32

⁽¹⁾ Reflects fiscal year delinquencies on or about June 30th of the indicated fiscal year.

⁽²⁾ Indicated delinquency data is not available for fiscal year 1993/94.

Source: David Taussig & Associates, Inc.

Estimated Assessed Value-to-Lien Ratios and Tax Burdens

The assessed values, direct and overlapping land secured bonded indebtedness and total tax burden on individual parcels vary among parcels within CFD No. 1. The value of and tax burden on individual parcels is significant because in the event of a delinquency in the payment of Special Taxes a District may foreclose only against delinquent parcels.

The estimated assessed value-to-lien ratios for each of the parcels of Developed Property within CFD No. 1 upon which a Special Tax was levied in fiscal year 1997-98 range from 4.38 to 1 to 48.95 to 1 (excepting only one parcel for which the value-to-lien ratio is currently approximately 0.22 to 1.). The table below groups value-to-lien ratios by planned community and by land use classification.

**CFD No. 1
Developed Property
Value-to-Lien Analysis⁽²⁾**

Planned Community ⁽¹⁾	1997-98 Assessed Value ⁽³⁾	1997-98 Lien ⁽⁴⁾	Average Value-to-Lien Ratio
Rancho Bernardo			
SFD	\$155,271,156	\$6,714,437	23.12:1
SFA	0	0	NA
AMH	27,478,762	1,378,753	19.93:1
Carmel Mountain Ranch			
SFD	\$363,102,201	\$17,757,929	20.45:1
SFA	108,253,602	5,155,996	21.00:1
AMH	64,040,580	3,244,769	19.74:1
Sabre Springs			
SFD	\$147,917,556	7,575,587	19.53:1
SFA	107,063,723	6,063,049	17.66:1
AMH	155,044 ⁽⁵⁾	698,831	0.22:1
Penasquitos East			
SFD	\$631,741,588	\$30,225,489	20.90:1
SFA	40,689,876	3,023,517	13.46:1
AMH	0	0	NA
Total	\$1,645,714,088	\$81,838,357	20.11:1

⁽¹⁾ Key: SFD - Single Family Detached

SFA - Single Family Attached

AMH - Apartment/Mobile Home

⁽²⁾ Developed Property only.

⁽³⁾ Fiscal year 1997-98 assessed value per the San Diego County Assessor's equalized assessment roll dated January 1, 1997.

⁽⁴⁾ Reflects total net direct and overlapping tax and assessment debt applicable to Developed Property only, including the Bonds.

⁽⁵⁾ Assessed value reflects land value only. A 192-unit apartment complex is currently being constructed on the indicated property.

Source: David Taussig & Associates, Inc.

The table below sets forth a summary of the estimated tax burden on parcels within CFD No. 1 based on 1997-98 assessed property values and 1997-98 tax and assessment levies within CFD No. 1.

Estimated Annual Tax Burdens

Land Use Class⁽¹⁾	Minimum Annual Tax Burden	Maximum Annual Tax Burden	Median Tax as % of AV⁽²⁾
SFD (>2,100 SF)	\$ 1,719.79	\$ 6,617.92	1.3837%
SFD (1,901 - 2,100 SF)	1,433.36	3,977.49	1.4002%
SFD (1,701 - 1,900 SF)	1,519.11	4,208.02	1.3999%
SFD (1,401 - 1,700 SF)	1,252.49	3,266.62	1.3948%
SFD (1,251 - 1,400 SF)	1,946.44	3,131.79	1.3891%
SFD (< 1,251 SF)	2,123.99	2,450.74	1.4045%
SFA (> 1,400 SF)	1,020.46	2,718.42	1.4015%
SFA (1,251 - 1,400 SF)	983.70	2,501.96	1.4367%
SFA (1,101 - 1,250 SF)	1,039.68	2,523.69	1.4520%
SFA (901 - 1,100 SF)	816.29	2,293.20	1.5098%
SFA (751 - 900 SF)	1,235.10	1,479.20	1.5540%
SFA (<751 SF)	978.18	1,312.28	1.7648%
AMH (>900 SF)	NA	NA	NA
AMH (751 - 900 SF)	NA	NA	NA
AMH (<751 SF)	NA	NA	NA

⁽¹⁾ Key: SFD - Single Family Detached
 SFA - Single Family Attached
 AMH - Apartment/Mobile Home

⁽²⁾ Tax burden reflects ad valorem taxes, Special Taxes as initially enrolled on Fiscal Year 1997-98 property tax roll, prior to corrections, and other direct assessments. Direct assessments have been estimated based on a sampling of direct assessments applicable to individual parcels in CFD No. 1. Approximately 0.5% of the taxable parcels in CFD No. 1 have tax burdens in excess of 2% of their assessed value.

Source: David Taussig & Associates, Inc.

The table below summarizes median annual tax burdens as a percentage of assessed value by planned community:

Median Annual Tax Burdens

Planned Community	Median Tax as % of AV⁽¹⁾
Rancho Bernardo	1.3430%
Carmel Mountain Ranch	1.3987%
Sabre Springs	1.4252%
Penasquitos East	1.4026%

⁽¹⁾ Tax burden reflects ad valorem taxes, Special Taxes as initially enrolled on Fiscal Year 1997-98 property tax roll, prior to corrections, and other direct assessments. Direct assessments have been estimated based on a sampling of direct assessments applicable to individual parcels.

Source: David Taussig & Associates, Inc.

Direct and Overlapping Land Secured Bonded Indebtedness

Set forth below is a direct and overlapping debt report of CFD No. 1 (the "Debt Report") prepared by California Municipal Statistics, Inc. as of January 1, 1998. The debt report is included for general information purposes only. CFD No. 1 has not independently reviewed the Debt Report and makes no representations as to its completeness or accuracy.

Property in CFD No. 1 is subject to special assessments, Special Taxes, and *ad valorem* property taxes. With respect to special assessments, almost all of the parcels in CFD No. 1 are subject to a County Water Authority water availability assessment, a Metropolitan Water District water standby charge, and a San Diego County Mosquito and Rat Control assessment. In addition, each parcel is located within one of the following five maintenance districts and is subject to a maintenance district assessment accordingly: Carmel Mountain Ranch Maintenance District, Park Village Maintenance District, Penasquitos East Maintenance District, Rancho Bernardo Maintenance District, and Sabre Springs Maintenance District. However, all of the foregoing special assessments and charges are small in amount, and none of such assessments or charges is associated with any bonded indebtedness. Of the lien amounts reflected on the following table, only the Special Taxes and *ad valorem* property taxes are associated with any indebtedness.

The *ad valorem* tax rate for each parcel in CFD No. 1 is 1.01994% for fiscal year 1997-98. The 0.01994% tax rate in excess of the standard 1% general purpose *ad valorem* levy is attributable to the following five public agencies: Metropolitan Water District, Palomar Pomerado Hospital District, City of San Diego, San Diego City Zoological Exhibits, and San Diego County Water Authority. With the exception of the San Diego Zoological Exhibits, the revenue from these *ad valorem* property taxes is used to pay debt service on general obligation bonds. The portions of these outstanding general obligation bonds allocable to CFD No. 1 are shown in the table below.

Additional indebtedness, subject to certain limitations including CFD No. 1's bond authorization, could be issued by CFD No. 1. In addition, other public agencies may issue additional indebtedness at any time, without the consent or approval of CFD No. 1. However, of the five public agencies currently levying *ad valorem* taxes in excess of the standard 1% general purpose *ad valorem* levy, only the Metropolitan Water District has any unissued bond authorization. The Metropolitan Water District has \$50 million of unissued bond authorization, of which approximately \$150,000 could be secured by *ad valorem* assessments on the property located in CFD No. 1. See "SPECIAL RISK FACTORS - Direct and Overlapping Indebtedness."

**Poway Unified School District
Community Facilities District No. 1
Direct and Overlapping Debt**

1997-98 Assessed Valuation: \$1,911,339,444

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/01/97</u>
San Diego County Water Authority	1.437%	\$ 127,390
Metropolitan Water District	0.234	1,357,294
City of San Diego	2.835	600,311
City of San Diego Open Space Park District	2.912	1,672,216
Palomar Pomerado Hospital district	6.029	26,226
Poway Unified School District Community Facilities District No. 1	100.000	<u>7,090,000 (1)</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 10,873,437
Less: City of San Diego Open Space Park District		<u>1,672,216</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 9,201,221
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
San Diego County General Fund Obligations	1.381%	\$ 7,455,853
San Diego County Pension Obligations	1.381	5,461,510
San Diego County Superintendent of Schools Obligations	1,381	31,901
Palomar Community College District Certificates of Participation	5.983	387,100
Poway Unified School District Certificates of Participation	18.364	294,837
City of San Diego General Fund Obligations	2.912	<u>6,490,557</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 20,121,758
Less: City of San Diego Stadium Authority		<u>165,547</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 19,956,211
 GROSS COMBINED TOTAL DEBT		 \$ 30,955,195 (2)
NET COMBINED TOTAL DEBT		\$ 29,157,432

(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Direct Debt (\$7,090,000).....	0.37%
Total Gross Direct and Overlapping Tax Assessment Debt	0.57%
Total Net Direct and Overlapping Tax and Assessment Debt	0.48%
Gross Combined Total Debt	1.62%
Net Combined Total Debt	1.53%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 06/30/97: \$0.00

Source: California Municipal Statistics, Inc.

SPECIAL RISK FACTORS

The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in CFD No. 1 to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of CFD No. 1 to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in CFD No. 1. See "Property Values" below.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of CFD No. 1 or the School District. Except with respect to the Special Taxes, neither the credit nor the taxing power of CFD No. 1 nor the School District is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by CFD No. 1 or the School District or force the forfeiture or any of their respective property. The principal of, premium, if any, and interest on the Bonds are not a debt of CFD No. 1 or the School District nor a legal or equitable pledge, charge, lien or encumbrance upon any of their respective property or upon any of their respective income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture.

Insufficiency of Special Taxes

Under the Revised Rate and Method of Apportionment of Special Tax for CFD No. 1, the annual amount of Special Tax to be levied on each taxable parcel in CFD No. 1 will generally be based on whether such parcel is developed for residential use or not and, for Developed Property, on the land use classification. Commercial/industrial property is not permitted to be taxed by CFD No. 1 and Undeveloped Property is not expected to be taxed by CFD No. 1. See "APPENDIX A" and "SOURCES OF PAYMENT FOR THE BONDS - Method of Apportionment of Special Tax."

The Ordinance authorizing the levy of the Special Tax expressly exempts all properties owned by the State, federal or other local governments. If for any reason property within any District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency or because of commercial or industrial use not subject to tax, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within such District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The School District has caused a notice of the Special Tax to be recorded in the Office of the Recorder for the County

against each parcel. 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 property within CFD No. 1 or 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.

Failure to Develop Properties

CFD No. 1 is primarily developed as of the date hereof and CFD No. 1 does not expect to levy Special Taxes against Undeveloped Property. No assurance can be given as to whether or when any additional property will be developed in CFD No. 1. Investors should evaluate an investment in the Bonds based on an assumption that no further development takes place in CFD No. 1.

Seismic Considerations

No known earthquake faults are located within CFD No. 1. Western San Diego has in recent history been an area of low seismicity, although faulting is relatively common. An inactive fault has been mapped in the area south of Poway Road and east of I-15. No recent movement has been recognized along this fault. Two potentially active fault systems occur in San Diego County: the Rose Canyon Fault, which lies 11 miles to the southwest of CFD No. 1, and the La Nacion Fault, which occurs 12 to 15 miles to the south of CFD No. 1. CFD No. 1, like all California communities, may be subject to seismic activity. There is no evidence that a ground surface rupture will occur in the event of an earthquake, but there is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in CFD No. 1. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in CFD No. 1 could be diminished in the aftermath of such an earthquake, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Direct and Overlapping Indebtedness

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for *ad valorem* property taxes regardless of when they are imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See "Bankruptcy and Foreclosure" below.

The ability of an owner of land within CFD No. 1 to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon taxable parcels. Presently, the Bonds are the only significant direct and overlapping land secured bonded indebtedness applicable to the property in

CFD No. 1. Any increase in the rate of the *ad valorem* tax levied within CFD No. 1 could adversely affect the willingness of property owners to pay taxes, including Special Taxes, when due. See "THE COMMUNITY FACILITIES DISTRICT — Direct and Overlapping Land Secured Bonded Indebtedness" herein. In addition, the School District and other public agencies whose boundaries overlap those of CFD No. 1, without the consent of the School District, and in certain cases without the consent of the owners of the land within CFD No. 1, could impose additional taxes or assessment liens on the property within CFD No. 1 in order to finance public improvements or services to be located or provided inside of or outside of such area. The lien created on the property within CFD No. 1 through the levy of such additional taxes may be on a parity with the lien of the Special Taxes.

The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of the landowners to pay the Special Taxes and increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes or the principal of and interest on the Bonds.

Property Values

The value of the property within CFD No. 1 is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, CFD No. 1's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes or floods, stricter land use regulations or other events will adversely impact the security underlying the Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT — Estimated Assessed Value-to-Lien Ratios and Tax Burdens" herein.

No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS - Proceeds of Foreclosure Sales."

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the San Diego County Assessor, not to exceed an increase of more than 2% per fiscal year.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within CFD No. 1 and the *ad valorem* property on tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* tax installments.

The Special Tax annual delinquency rates for CFD No. 1 during the last five fiscal years has been less than 4.0% of the Special Taxes levied. See "THE COMMUNITY FACILITIES DISTRICT - Delinquency History."

See "SOURCES OF PAYMENT - Proceeds of Foreclosure Sales," for a discussion of the provisions which apply, and procedures which a District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See "Bankruptcy and Foreclosure" below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special

taxes and the limitation on CFD No. 1's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Bankruptcy and Foreclosure

The payment of property owners' taxes and the ability of CFD No. 1 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 "SOURCES OF PAYMENT FOR THE BONDS - Proceeds of Foreclosure Sales." 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 CFD No. 1 to foreclose the lien of a delinquent unpaid Special Tax payment may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. In the event that any financial institution making any loan which is secured by real property within CFD No. 1, is taken over by the FDIC and prior thereto or thereafter, the loan or loans go into default, the ability of CFD No. 1 to collect interest and penalties specified by state law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that the FDIC intends to pay valid real property taxes, interest and penalties, in accordance with state law, on property which at the time of the tax levy is owned by institutions in an FDIC receivership, unless abandonment of the FDIC interest is determined to be appropriate.

However, the Policy Statement is unclear as to whether the FDIC considers special taxes such as those levied by CFD No. 1 to be "real property taxes" which it intends to pay. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, it will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will it pay or recognize liens for any penalties, fines, or similar claims imposed for the nonpayment of taxes.

CFD No. 1 is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within CFD No. 1 in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Bonds.

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

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled In re Glasply Marine Industries. In that case, the court held that ad valorem

property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all 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 be paid, assuming that the debtor had 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 Special Taxes levied after the filing of a petition in bankruptcy. Glasply is controlling precedent on bankruptcy courts in the State. If the Glasply precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the Bonds or the Indenture. Pursuant to the Indenture and further subject to the prior lien of owners of Bonds, an owner is given the right for the equal benefit and protection of all owners similarly situated to pursue certain remedies described in Appendix C - "SUMMARY OF THE INDENTURE - Events of Default" and "- Remedies of Owners" attached to this Official Statement.

Limitations on Remedies

Remedies available to the owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

Loss of Tax Exemption

As discussed under the caption "TAX EXEMPTION," the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of CFD No. 1 to comply with certain provisions of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Indenture.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although CFD No. 1 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. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse 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.

Constitutional Limitations on Taxation and Appropriations

On June 6, 1978, California voters approved Proposition 13, a statewide initiative relating to the taxation of real property which added Article XIII A to the California Constitution. Article XIII A placed significant limits on the imposition of new ad valorem taxes, special taxes and transaction and sales taxes. Section 4 of Article XIII A permits cities, counties and special districts, by a two-thirds vote of the qualified electors of CFD No. 1, to impose special taxes, except for ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property. The Special Tax is a special tax approved by the voters within CFD No. 1 in accordance with the procedures set forth in Section 4 of Article XIII A. CFD No. 1 has not pledged any taxes other than the Special Taxes to the repayment of the Bonds and, given the limitations on ad valorem property taxes imposed by Article XIII A, does not expect any ad valorem taxes to be available to repay the Bonds.

Article XIII A does permit the levy of ad valorem property taxes and the imposition of special assessments to pay interest and redemption charges on any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by voters voting at the election for the taxes or assessment. Were the voters to approve indebtedness payable from ad valorem taxes, those taxes would be on a parity with the Special Taxes. See "SPECIAL RISK FACTORS - Direct and Overlapping Indebtedness" herein.

State and local government agencies in California as well as the State of California are subject to annual "appropriation limits" imposed by Article XIII B of the State Constitution. Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are authorizations to spend "proceeds of taxes," which consist of tax revenues, certain state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as appropriations for debt service on indebtedness existing or authorized before January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, reasonable user charges or fees and certain other nontax funds. Since the Bonds constitute indebtedness authorized by the voters within CFD No. 1, CFD No. 1 does not intend to treat the Special Taxes as "appropriations subject to limitation."

Proposition 218

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 XIIC and Article XIID 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 several lawsuits have been filed requesting the courts to interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to CFD No. 1 to pay the principal of and interest on the Bonds as described below.

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

"Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution."

Accordingly, although the matter is not free from doubt, it is likely that 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 Bonds.

It may be possible, however, for voters or the School District Board of Education acting as the legislative body of CFD No. 1 to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 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 Bonds. Nevertheless, to the maximum extent that the law permits it to do so, the School District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates applicable to Developed Property below an amount equal to 125 percent of annual debt service for the Bonds outstanding as of the date of reduction. The School District also has covenanted that, in the event an initiative is adopted which purports to alter the Revised Rate and Method of Apportionment of Special Tax, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See "SPECIAL RISK FACTORS - Limitations on Remedies."

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after September 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

Proposition 62 was a statutory initiative which confirmed the distinction between a general tax and special tax, established by the State Supreme Court in *City and County of San Francisco v. Farrell* by defining a general tax as one imposed for general governmental purposes and a special tax as one imposed for specific purposes. By its terms, Proposition 62 applies only to general and special taxes imposed on or after August 1, 1985. However, a Court of Appeal, in *City of Westminster v. County of Orange* held that an effort to apply Proposition 62's voter approval requirement to taxes imposed between August 1, 1985 and Proposition 62's effective date (November 5, 1986) was unconstitutional.

On September 28, 1995, the Supreme Court of the State of California filed its opinion in the case of *Santa Clara County Local Transportation Authority v. Guardino*. The Court held that a sales and use tax levied by the Santa Clara County Local Transportation Authority (the "Authority") to finance local street, highways and mass transit systems was invalid under statewide Proposition 62, adopted in 1986, because it was approved by a simple majority rather than a two-thirds vote of the electorate. The Court found that (i) the Authority was a "district", and (ii) the tax was a "special tax" within the meaning of Proposition 62. Unlike the previous Supreme Court decision in *Rider v. County of San Diego* which invalidated a sales and use tax levied by a special authority to finance criminal justice facilities based on constitutional grounds, namely Proposition 13, the *Guardino* decision was based on the statutory initiative grounds of Proposition 62.

The decision in *Guardino* went beyond the particular facts of the case to uphold the validity of Proposition 62 generally and to overrule specifically the Court of Appeal case of *City of Woodlake v. Logan* (1991), 230 Cal.App.3d 1058. *Woodlake* held that portions of Proposition 62 were unconstitutional, namely Government Code Sections 53723 (requiring a majority vote approval for a general tax), 53724 (specifying election requirements) and 53728 (requiring property tax withholding). As a result, one of the consequences of *Guardino* upholding the validity of Proposition 62 is that the annual revenues of any local government or district as shown in the general fund budget must be reduced in any year to the extent that they rely on the proceeds of any general tax which has not been approved by majority vote of the electorate. The California Legislature recently adopted Assembly Bill 1362, which provided that the *Guardino* decision should apply only prospectively to any tax that was imposed or increased by an ordinance or resolution adopted after December 14, 1995. The bill has been vetoed by the Governor and subsequently withdrawn by its author.

Proposition 62 defines the term "local government" to mean "any county, city, city and county, including a chartered city or county, or any public or municipal corporation"; it defines "district" to mean

"an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries." It thus purports to cover virtually every form of local jurisdiction in the State, including the CFD No. 1.

In connection with the formation of CFD No. 1, the qualified electors eligible to vote within CFD No. 1 approved by two-thirds vote the proposition authorizing the issuance of bonds in an amount not to exceed \$138,251,618 in 1986-87 dollars and the Special Tax to be levied within CFD No. 1 to pay the principal of and interest on the Bonds. Accordingly, the School District and CFD No. 1 believe that Proposition 62 as construed by the Guardino decision does not adversely affect the levy of Special Tax within CFD No. 1.

Ballot Initiatives

Article XIII A, Article XIII B and Proposition 62 were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. On March 6, 1995 in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the School District or local districts to increase revenues or to increase appropriations or on the ability of the landowners within CFD No. 1 to complete the remaining proposed development. See "SPECIAL RISK FACTORS - Failure to Develop Properties" herein.

CONTINUING DISCLOSURE

Pursuant to a Disclosure Agreement with the Fiscal Agent, as dissemination agent (the "Disclosure Agreement"), the School District, for and on behalf of CFD No. 1, has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data concerning CFD No. 1. The Annual Report to be filed by the School District for and on behalf of CFD No. 1 will include: (a) audited financial statements of the School District, prepared in accordance with generally accepted accounting principles in effect from time to time; (b) any changes to the Revised Rate and Method of Apportionment of Special Taxes for CFD No. 1 set forth in Appendix A to the Official Statement; and (c) information concerning fund balances under the Indenture, current assessed values and annual Special Tax delinquency rates and certain other information as set forth in Section 4 of the Disclosure Agreement. The full text of the Disclosure Agreement is set forth in Appendix E.

The requirement that the School District file its audited financial statements as a part of the Annual Report has been included in the Disclosure Agreement solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the School District other than as described hereinabove. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS - Limited Obligations." The School District has no prior undertaking with regard to Rule 15c2-12 and therefore has never failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events.

In addition, the School District, for and on behalf of CFD No. 1, has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events":

(1) delinquency in payment when due of any principal or interest on the Bonds; (2) occurrence of any event of default under the Indenture (other than as described in clause (1)), (3) amendment to the Indenture or the Disclosure Agreement modifying the rights of the Owners; (4) unscheduled redemption of any Bonds; (5) defeasance of the Bonds or any portion thereof; (6) any change in any rating on the Bonds; (7) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds; (8) unscheduled draws on the Reserve Fund reflecting financial difficulties; (9) any release, substitution, or sale of property securing repayment of the Bonds; (10) any unscheduled draw on a letter of credit or a municipal bond insurance policy reflecting financial difficulties; or (11) any change in the provider of a letter of credit, a municipal bond insurance policy, or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or the municipal bond insurance policy. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). CFD No. 1 has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Notwithstanding any other provision of the Disclosure Agreement, the School District, for and on behalf of CFD No. 1, the Fiscal Agent and Dissemination Agent may amend the Disclosure Agreement (and the Fiscal Agent shall agree to any amendment so requested by CFD No. 1 provided that neither the Fiscal Agent nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations thereunder) only if (a) the amendment is 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 CFD No. 1, or type of business conducted; (b) the Disclosure Agreement, as amended, would have complied with the requirements of the Rule (as defined in the Disclosure Agreement) at the time of sale of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (c) the amendment does not materially impair the interests of Bondowners, as determined by parties unaffiliated with CFD No. 1 (such as, but without limitation, CFD No. 1's bond counsel) or by Bondowners' consent pursuant of the Indenture; and (d) the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the staff of the Securities and Exchange Commission to the National Association of Bond Lawyers dated June 23, 1996) of the change in the type of operating data or financial information being provided.

In addition, CFD No. 1's obligations under the Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the Bondowners and shall be enforceable by the Bondowners, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of CFD No. 1's obligations under the Disclosure Agreement and any failure by CFD No. 1 to comply with the provisions thereof shall not be an event of default under the Indenture.

TAX EXEMPTION

In the opinion of Luce, Forward, Hamilton & Scripps, San Diego, California, Bond Counsel, under existing statutes, regulations, rules and court decisions, the interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxation imposed by the State of California.

Bond Counsel is 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 Internal Revenue Code of 1986, as amended (the "Code"). However, with respect to the Bonds owned by corporations (as defined for federal income tax purposes), interest on the Bonds may be included in adjusted current earnings, a portion of which may

increase the alternative minimum taxable income of such corporations. In addition, although interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds and the ownership of the Bonds may otherwise affect the federal income tax liability of certain persons or entities. Bond Counsel expresses no opinion regarding any such consequences.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest paid with respect thereto to be and remain exempt from federal income taxation. Noncompliance with such requirements might cause the interest paid on the Bonds to be subject to federal income taxation retroactive to the date of issue and the Bonds. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Bonds and other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. Pursuant to the Indenture, CFD No. 1 has covenanted to comply with all such requirements.

In rendering such opinions, Bond Counsel is assuming that CFD No. 1 will comply with its covenants in the Indenture to comply with the requirements of the Code. Noncompliance with the Code might cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance and delivery of the Bonds.

LEGAL OPINION

The legal opinion of Luce, Forward, Hamilton & Scripps LLP, San Diego, California, approving the validity of the Bonds in substantially the form set forth as Appendix B hereto, will be made available to purchasers at the time of original delivery. A copy of the legal opinion for the Bonds will be provided with each definitive bond. Certain legal matters will be passed upon for CFD No. 1 by Luce, Forward, Hamilton & Scripps LLP, San Diego, California, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds or the pledge of Special Taxes to repay the Bonds and a certificate of the School District for and on behalf of CFD No. 1 to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the School District nor CFD No. 1 is aware of any litigation pending or threatened which questions the existence of CFD No. 1 or the School District or contests the authority of CFD No. 1 to levy and collect the Special Taxes or to issue and retire the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, Grant Thornton LLP, independent certified public accountants, will deliver a report stating that the firm has reviewed (a) the mathematical accuracy of certain computations relating to the adequacy of the Investment Securities (as defined in the Escrow Agreement) and the interest thereon to pay when due the redemption price, and interest due and to become due on the Prior Bonds on and prior to the redemption date thereof, and (b) the computations of actuarial yields of the Bonds and of investments in the Escrow Fund.

RATING

Standard & Poor's Ratings Services ("S&P") has assigned the Bonds the rating of "AAA" and Moody's Investors Service ("Moody's") has assigned the Bonds the rating of "Aaa" These ratings reflect

only the opinion of S&P or Moody's, and do not constitute a recommendation to buy, sell or hold the Bonds. The ratings assigned to the Bonds by S&P and Moody's were based upon the issuance of the municipal bond insurance policy. In addition to the foregoing ratings, CFD No. 1 has applied for and received underlying ratings on the Bonds of "A" from S&P and "A3" from Moody's, which ratings are independent of the presence of municipal bond insurance. Explanation of the significance of the ratings may be obtained from S&P or Moody's. A rating is subject to revision or withdrawal at any time by the particular rating agency, and there is no assurance that a rating will continue for any period of time or that it will be revised or withdrawn. Any revision or withdrawal of the ratings could have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Stone & Youngberg LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$80,151,158.95 (being \$80,000,000.00 aggregate principal amount thereof, less Underwriter's discount of \$636,000.00, plus original issue premium of \$1,621,285.80, less original issue discount of \$834,126.85). The purchase contract relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

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

FINANCIAL INTERESTS

The fees being paid to the Underwriter and Bond Counsel are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

PENDING LEGISLATION

CFD No. 1 is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of CFD No. 1 to pay the principal of and interest on the Bonds when due.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

The execution and delivery of this Official Statement by the Superintendent of the School District has been duly authorized by the Board of Education of the Poway Unified School District acting in its capacity as the legislative body of CFD No. 1.

POWAY UNIFIED SCHOOL DISTRICT for
and on behalf of COMMUNITY FACILITIES
DISTRICT NO. 1 OF THE POWAY UNIFIED
SCHOOL DISTRICT

By: _____
Superintendent

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APPENDIX A

REVISED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

NOTE: The following is the Rate and Method of Apportionment of Special Tax as revised by Resolution No. 70-95 which reduced Initial Special Tax rates for the 1987-88 Fiscal Year to the amounts shown below.

**POWAY UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 1**

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

The Special Tax applicable to each Residential Property in Community Facilities District No. 1 ("CFD No. 1") shall be determined by applying to such property the appropriate Special Tax rate described below. No tax shall be levied on commercial and/or industrial property.

CLASSIFICATION OF RESIDENTIAL PROPERTY

All Residential Property shall be classified as either Developed Property or Undeveloped Property. Additionally, all Developed Property shall be further classified into one of the housing categories identified below.

Each Residential Property shall only be subject to an amount not to exceed the maximum Special Tax rate applicable to its classification.

DEVELOPED PROPERTY TAX RATES

Each Developed Property shall be subject to one of the following Special Tax rates as applicable:

Initial Special Tax:

The maximum Special Tax rate applicable to any Developed Property for the Initial Fiscal Year for such property shall be the then effective Initial Special Tax for the housing category for such property. The Initial Special Tax for the Fiscal Year commencing July 1, 1987, is as follows:

<u>Housing Classification</u>	<u>Housing Size (Square Feet)</u>	<u>Initial Special Tax</u>
Single family detached	over 2,100	\$ 714.27
	1,901 - 2,100	650.76
	1,701 - 1,900	610.74
	1,401 - 1,700	569.85
	1,251 - 1,400	500.25
	1,250 and under	486.33
Single family attached	over 1,400	\$ 464.58

	1,251 - 1,400	442.83
	1,101 - 1,250	438.48
	901 - 1,100	375.84
	751 - 900	354.09
	750 and under	331.47
Apartments/mobile home*	over 900	\$ 220.98
	751 - 900	199.23
	750 and under	176.61

(* Any dwelling unit approved by the City of San Diego as a condominium shall be taxed as an apartment if such dwelling unit is utilized as an apartment until such time as the County Assessor assigns a separate assessor's parcel number to such dwelling unit, after which time the dwelling unit shall be taxed as single family attached.)

Commencing July 1, 1988, the above Initial Special Tax rates for each Fiscal Year shall be subject to escalation by an amount equal to the percentage increase in the Building Cost Index for the preceding Fiscal Year multiplied times the Initial Special Tax for such preceding Fiscal Year.

Annual Special Tax:

For each Fiscal Year following the Initial Fiscal Year for any Developed Property, such property shall be subject to an Annual Special Tax which shall equal the Initial Special Tax for such property subject to escalation in an amount not to exceed 2% per Fiscal Year. Provided, however, that commencing with the Fiscal Year beginning July 1, 1990, the Board may escalate the Annual Special Tax in each Fiscal Year up to an additional 2% for such Fiscal Year, only if the Board determines prior to the commencement of each such Fiscal Year, at an annual public hearing on such matter duly called and noticed, that such rate of escalation for such Fiscal Year is necessary to pay debt service, fund any required sinking fund, and finance School Facilities for such Fiscal Year. In no event, however, shall the escalation of the Annual Special Tax exceed four percent (4%) for any one Fiscal Year.

UNDEVELOPED PROPERTY TAX RATE

In the event that on July 1 of any Fiscal Year, the sum of

- (i) the maximum projected revenues that could be generated from the Special Tax if they were applied to all Developed Properties at the maximum rate possible (including without limitation increases that would result from the application of the Maximum Escalators), and
- (ii) all Surplus Funds, shall be insufficient to pay principal of and interest on the bonds of CFD No. 1 at that time outstanding for such Fiscal Year, and to make any deposits required to

be made with respect to any reserve fund created with respect to such bonds for such Fiscal Year, all Undeveloped Property shall be subject to a Special Tax for such Fiscal Year only, at a rate not to exceed \$750 per acre of Net Undeveloped Property (or a proportionate amount thereof for any portion of such acre), as calculated below. Such Special Tax on the Undeveloped Property shall be calculated for each acre (or fraction thereof) of Net Undeveloped Property as follows:

The amount minimally required to pay, for such Fiscal Year, the shortfall of principal of and interest on the bonds of CFD No. 1 at that time outstanding and to make any required deposits into any reserve fund established with respect to such bonds (such minimum shortfall to be calculated in accordance with the preceding sentence), shall be divided by the number of acres (including fractions thereof) of Net Undeveloped Property.

DEFINITIONS

"Annual Special Tax" means the maximum special tax that may be levied on any Developed Property for any Fiscal Year following the Initial Fiscal year for such property, and shall be levied as long as necessary, for a period not to exceed 24 years for such Developed Property, to pay for authorized School Facilities and discharge authorized bond obligations of CFD No. 1.

"Board" means the Board of Education of the Poway Unified School District.

"Building Cost Index" shall mean the Building Cost Index for the City of Los Angeles based upon the most recently released data prior to June 30th of each Fiscal Year as set forth in the ENGINEERING NEWS-RECORD (ENR) published in the McGraw-Hill Construction Weekly.

"Developed Property" means any Residential Property for which a building permit for a residential dwelling unit(s) has been issued by March 1st of the prior Fiscal Year.

"Fiscal Year" means the period from July 1st of any calendar year through June 30th of the following calendar year.

"Housing Size" means the habitable square footage for initial City-issued building permits only, excluding garages, overhangs and covered patios.

"Initial Fiscal Year" means for any Developed Property the Fiscal Year commencing the July 1st following the date of the issuance of a building permit for a residential dwelling unit(s) for such property.

"Initial Special Tax" means the maximum special tax that may be levied on any Developed Property for the Initial Fiscal Year.

"Maximum Escalator" means, with respect to Developed Property, the application of the

maximum annual escalations permitted pursuant to this Special Tax Formula, assuming a public hearing has been held to permit an annual 4% escalation (whether or not such public hearing has been held).

"Net Undeveloped Property" means for any lot or parcel of Undeveloped Property, the gross acreage of said lot or parcel less the acreage of (1) all publicly dedicated open space or such open space designed on any recorded final map or designated on the Community Plan for the lot or parcel, (2) all publicly dedicated streets with a right-of-way width of 98 feet or more or any such public street designated on the Community Plan for the lot or parcel, and (3) all other publicly dedicated parks, libraries, fire stations and other similar buildings and facilities or such buildings, facilities and properties which are designated on the applicable Community Plan for public dedication or ownership, and (4) all public utility easements located outside existing or proposed public rights-of-way.

"Residential Property" means any lot or parcel of land located within the boundaries of CFD No. 1 which is used, zoned, or designated for residential purposes on the applicable General Plan, Specific Plan or Community Plan which the City of San Diego utilizes and relies upon in granting building permits for residential development.

"School Facilities" means only those public facilities identified in the Description of Facilities for CFD No. 1 on file in the Office of the Secretary of the Board.

"Sinking Fund" means any fund funded from Developed Property Special Tax revenues dedicated for payment of debt service of the Community Facilities District No. 1 special tax bonds, or for the construction of School Facilities, which fund shall not exceed \$15,000,000 in any Fiscal Year.

"Surplus Funds" shall consist of all of the following: (a) all Special Tax revenues previously collected from CFD No. 1 and legally available to pay principal of and interest on bonds of CFD No. 1 at that time outstanding and to pay amounts required to be deposited into any reserve account established with respect to such bonds; (b) all monies in any reserve fund established with respect to the bonds of CFD No. 1 at that time outstanding which is in excess of the minimum amount required to be on deposit therein; (c) all state funds collected and other funds received, and properly allocable to the School Facilities or the students enrolled in the School facilities and which funds are legally eligible to be used for the School Facilities, and are not used to directly finance costs of the School Facilities; and (d) any amount on deposit in any Sinking Fund established with respect to such bonds.

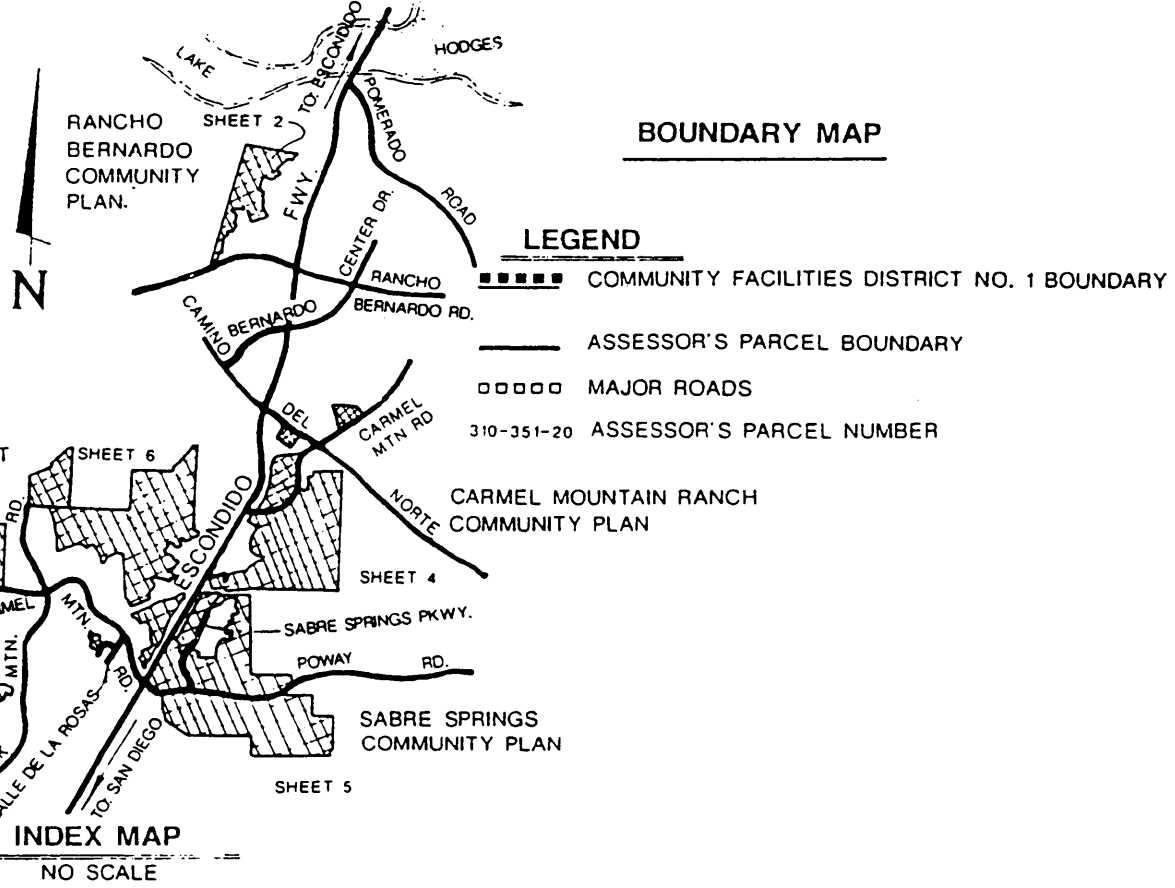
"Undeveloped Property" means all Residential Property not classified as Developed Property.

APPENDIX A-I
MAP OF CFD NO. 1⁽¹⁾

⁽¹⁾Approximately 270 parcels included within the boundaries depicted on the attached map are not subject to the lien of the Special Taxes, and the various tables in this Official Statement do not include these parcels.

MAP OF CFD NO. 1

**COMMUNITY FACILITIES DISTRICT NO. 1
POWAY UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO, CALIFORNIA**



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APPENDIX B
FORM OF BOND COUNSEL OPINION

February 4, 1998

Poway Unified School District
Community Facilities District No. 1
Poway, California

**Re: \$80,000,000 Poway Unified School District Community Facilities District No. 1
Series 1998 Special Tax Bonds**

Members of the Board of Education:

We have acted as bond counsel in connection with the issuance by the Poway Unified School District Community Facilities District No. 1 (the "District") of its \$80,000,000 aggregate principal amount of Series 1998 Special Tax Bonds (the "Bonds"), pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.*, of the California Government Code) (the "Act"), a Bond Indenture dated as of January 1, 1998 (the "Bond Indenture") by and between the District and First Trust of California, National Association, as fiscal agent, and Resolution No. 52-98 (the "Resolution") adopted December 15, 1997 by the Board of Education of the Poway Unified School District acting as the legislative body of the District. We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is a duly created and validly existing community facilities district under the Act, with the power to adopt the Resolution, enter into the Bond Indenture and perform the agreements on its part contained therein and issue the Bonds.
2. The Bond Indenture has been duly entered into by the District and constitutes a valid and binding obligation of the District enforceable upon the District.

3. Pursuant to the Act, the Bond Indenture creates a valid lien on the funds pledged by the Bond Indenture for the security of the Bonds.

4. The Bonds have been duly authorized, executed and delivered by the District and are valid and binding limited obligations of the District, payable solely from the sources provided therefor in the Bond Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Bond Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in appropriate cases.

Sincerely,

APPENDIX C

SUMMARY OF BOND INDENTURE

The following is a brief summary of certain provisions of the Bond Indenture ("Indenture") which is being executed by the District and governs the terms of the Bonds. This summary does not purport to be complete and is qualified in its entirety by reference to said documents.

Definitions. Unless the context otherwise requires, the following terms shall have the following meanings for purposes of the Indenture:

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 *et seq* of the California Government Code.

"Administrative Expense Requirement" means the amount of \$100,000 in the first Bond Year, increased by two percent (2%) per Bond Year thereafter and provided further that the District may in its sole discretion, fund additional Administrative Expenses, with out limitation, from any other funds available to the District, including the Special Revenue Fund.

"Administrative Expenses" means the ordinary and necessary fees and expenses for determination of the Special Tax and administering the levy and collection of the Special Tax and of servicing the Bonds, including any or all of the following: the fees and expenses of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the District or the School District in carrying out their duties under the Indenture (including, but not limited to, annual audits, special tax consultants and attorneys and costs incurred in the levying and collection of the Special Taxes or complying with any information disclosure requirements of state or federal laws) including the fees and expenses of their counsel, all other costs and expenses of the District, including, but not limited to, Policy Costs with respect to the Bond Insurance Policy or the Reserve Policy, the School District or the Fiscal Agent incurred in connection with the discharge of their respective duties under the Indenture, any rebate due and owing on the Bonds as determined by the Administrator and all other costs of the School District in any way related to the administration of the District.

"Administrator" means the Superintendent or the Assistant Superintendent, Business Support Services, of the School District or other officer of the School District as the legislative body of the District may designate.

"Authorized Investments" or "Qualified Investments" means, subject to applicable law:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) 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 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:

- Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)
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)
- Financing Corporation (FICO)
Debt obligations
- Resolution Funding Corporation (REFCORP)
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 and "Prime-1" by Moody's.

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" or "AAm-G" or better by S&P and "Prime-1" by Moody's (including those of the Fiscal Agent or its affiliates).

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 and acceptable to the Bond Insurer, 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. All other requirements of S&P and Moody's in respect of repurchase agreements shall be met.

E. 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 (who shall give such direction if so directed by the Bond Insurer), 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, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), 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 (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, the long-term debt paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(1) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(2) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Fiscal

Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(3) 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;

(4) the District or the Fiscal Agent receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer,

(5) the investment agreement shall provide that if during its term

(a) the providers 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 (i) 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 third party acting solely as agent therefor (the "Holder of the Collateral") 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 (ii) repay the principal of and accrued but unpaid interest on the investment; and

(b) 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, at the direction of the District or the Fiscal Agent (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Fiscal Agent; and

(6) 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);

(7) the investment agreement must provide that if during its term

(a) 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 (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued, but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate, and

(b) 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 providers 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.

"Authorized Representative of the School District" means any officer of the School District specified by the Superintendent or the Assistant Superintendent, Business Support Services, of the School District in writing to the Fiscal Agent as an authorized representative of the School District for purposes of the Indenture.

"Average Annual Debt Service" means the average over all Bond Years of the annual debt service from the date of the Bonds to their maturity, including:

- (1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and
- (2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year assuming the Bonds are retired as scheduled.

"Bond Counsel" means an attorney or a 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 any state of the United States of America or the District of Columbia.

"Bond Fund" means the fund by that name established pursuant to Section 3.01 of the Indenture in which there are established the Accounts described in Section 3.01.

"Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal and interest on the Bonds.

"Bond Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, and any successor thereto.

"Bond Register" means the books which the Fiscal Agent shall keep or cause to be kept, on which the registration and transfer of the Bonds shall be recorded.

"Bond Reserve Policy" or "Reserve Policy" means a policy of insurance satisfying all or any portion of the Reserve Requirement provided by, or approved in writing by, the Bond Insurer.

"Bond Year" means the one year period beginning on October 2nd in each year and ending on October 1st in the following year, except that the first Bond Year shall begin on the Closing Date for the Series 1998 Bonds and end on October 1, 1998.

"Bondowner" or "Owner" means the person or persons in whose name or names any Bond is registered.

"Bonds" means the Poway Unified School District Community Facilities District No. 1 Series 1998 Special Tax Bonds issued under the Indenture and, if the context requires, any Parity

Bonds issued in accordance with Section 9.02 of the Indenture, at any time Outstanding under the Indenture or any Supplement.

"Closing Date" means, with respect to each issue of Bonds, the date of delivery of such issue of Bonds by the District and payment therefor by the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

"Completion of Project" means certification by the District to the Fiscal Agent of (i) the expenditure, commitment by contract or transfer pursuant to Section 3.08(c) of the Indenture of all moneys in the Improvement Account of the Improvement Fund having occurred, and (ii) the filing and recordation of a notice of completion by the School District with respect to the facilities or the provision of a title guarantee with regard to any facility for which no notice of completion was recorded.

"Costs of Issuance" means the costs and expenses incurred in connection with the issuance and sale of the Bonds including the acceptance and initial annual fees and expenses of the Fiscal Agent and the Escrow Bank, legal fees and expenses, costs of reproducing the Bonds costs of printing the preliminary and final Official Statements for the Bonds, fees of financial consultants, fees payable to the initial purchaser of the Bonds, the premium payable to the Bond Insurer of the Bonds and other fees and expenses set forth in a request of the District.

"County" means the County of San Diego, California.

"District" means Community Facilities District No. 1 of the Poway Unified School District established pursuant to the Act.

"Escrow Agreement" means that certain Escrow Agreement dated as of January 1, 1998 between the District and the Escrow Bank relating to the payment of the Prior Bonds.

"Escrow Bank" means First Trust of California, National Association.

"Escrow Fund" means the fund by that name established pursuant to the Escrow Agreement.

"Fiscal Agent" means First Trust of California, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in Sections 7.02 or 7.03 of the Indenture and any successor thereto.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the School District as its Fiscal Year in accordance with applicable law.

"Gross Taxes" means the amount of all Special Taxes and proceeds from the sale of property collected pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes in lieu of foreclosure.

"Indenture" means the Bond Indenture dated as of January 1, 1998 between the District and Fiscal Agent relating to the issuance of the Series 1998 Bonds.

"Independent Financial Consultant" means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

(1) is in fact independent and not under the domination of the District or any of the property owners within the District;

(2) does not have any substantial interest, direct or indirect, in the District or any of the property owners within the District; and

(3) is not connected with the District as a member, officer or employee of the District or any of the property owners within the District, but who may be regularly retained to make annual or other reports to the District.

"Interest Payment Date" means each April 1 and October 1, commencing October 1, 1998.

"Insurance Fiscal Agent" means State Street Bank and Trust Company, N.A., or its successors under the Bond Insurance Policy.

"Investment Agreement" means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in subsection (11) of the definition of Authorized Investments in the Indenture.

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year by totaling the following for such Bond Year:

(1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

"Moody's" means "Moody's Investors Service, its successors and assigns.

"Net Taxes" means the amount of all Gross Taxes minus the Administrative Expense Requirement.

"Ordinance" means Ordinance No.1-88 as amended and continued by Ordinance 98-2, each adopted by the legislative body of the District providing for the levy of the Special Tax.

"Outstanding" or "Outstanding Bonds" means all Bonds theretofore issued by the District, except:

- (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.01 of the Indenture;
- (2) Bonds for 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; and
- (3) Bonds which have been surrendered to the Fiscal Agent for transfer or exchange or for which a replacement has been issued pursuant to the Indenture.
- (4) Bonds defeased but without notice being given pursuant to Sections 9.01(B) or (C) of the Indenture.

"Owner" or "Bondowner" means the person or persons in whose name or names any Bond is registered.

"Parity Bonds" means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in the Indenture or any Supplement, rank on a parity with the Bonds.

"Policy Costs" means all premiums and costs incurred by or on behalf of the District in connection with the delivery and/or maintenance of any Bond Insurance Policy or Bond Reserve Policy.

"Principal Office" means the office of the Fiscal Agent located in Los Angeles, California (except for transfers, exchanges and surrenders of and payments on the Bonds, in which case such office shall refer to the office of First Trust National Association, 180 East Fifth Street, St. Paul, Minnesota 55101, Attention: Corporate Trust Department) or such other office or offices as the Fiscal Agent may designate from time to time, or the office of any successor Fiscal Agent where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

"Prior Bonds" means Poway Unified School District Community Facilities District No. 1 Special Tax Bonds, Series A, issued pursuant to the Prior Resolution of the Board of Education of the Poway Unified School District.

"Prior Resolution" means Resolution No. 7-92 adopted by the Board of Education of the Poway Unified School District on August 26, 1991.

"Project" means the construction, acquisition and equipping of certain real and other tangible property with an estimated useful life of five years or longer, which is to be acquired or constructed within and without the District, including certain school and related facilities, as more particularly described in the Resolution of Formation.

"Project Costs" means the amounts necessary to finance the construction and acquisition of the Project and incidental expenses of the type authorized for financing under the Act associated therewith.

"Rating Agency" means Moody's and Standard & Poor's or both as the context requires.

"Rebate Fund" means the fund by that name established pursuant to Section 3.01 of the Indenture in which there are established the Accounts described in Section 3.01 of the Indenture.

"Record Date" means the fifteenth (15th) day of the month preceding an Interest Payment Date whether or not such day is a business day.

"Regulations" means the final, temporary and proposed Treasury Regulations promulgated pursuant to Sections 103 and 141 through 150 of the Code.

"Reserve Fund" means the fund by that name established pursuant to Section 3.01 of the Indenture in which there are established the Accounts described in Section 3.01 of the Indenture.

"Reserve Policy" means a municipal bond insurance policy deposited with the Fiscal Agent pursuant to Section 3.07(F) of the Indenture, provided that all of the following requirements are met: (a) the insurer consents to such Reserve Policy or the issuer of such Reserve Policy is a bond insurer with a claims-paying ability rating of at least "AAA" by Standard & Poors and "Aaa" by Moody's; (b) such Reserve Policy has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to Section 3.07(F) of the Indenture; and (c) the Fiscal Agent is authorized pursuant to the terms of such Reserve Policy to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payment required pursuant to Section 3.07(B) of the Indenture.

"Reserve Requirement" means, with respect to the Bonds and any Parity Bonds, as of any date of calculation an amount equal to the lesser of (1) ten percent (10%) of the original proceeds of the Bonds or any Parity Bonds, (2) Maximum Annual Debt Service on the Bonds or Parity Bonds, or (3) one hundred twenty-five percent (125%) of the Average Annual Debt Service on the Bonds or Parity Bonds.

"Resolution of Formation" means Resolution No. 46-87 adopted by the Board of Education of the School District on May 26, 1987, pursuant to which the Board of Education of the School District formed the District.

"Resolution" or "Resolution of Issuance" means Resolution No. 52-98 adopted by the Board of Education of the School District on December 15, 1997, authorizing the issuance of the Series 1998 Bonds, and approving the terms and provisions of this Indenture.

"School District" means the Poway Unified School District, California.

"Series 1998 Bonds" means the District's Series 1998 Bonds issued under the Indenture on February 4, 1998, in the aggregate principal amount of \$80,000,000.

"Sinking Fund Payment" means an annual payment to be applied to redeem a portion of the Term Bonds in accordance with the schedules set forth in Section 4.01(B) of the Indenture and any annual sinking fund payment to be applied to redeem any Parity Bonds as described in the Supplement for such Parity Bonds.

"Special Revenue Fund" means the fund by that name established pursuant to Section 3.01 of the Indenture.

"Special Tax" or "Special Taxes" means the special taxes levied within the District pursuant to the Act, the Ordinance, and the Indenture.

"Special Tax Fund" means the fund by that name established pursuant to Section 3.01 of the Indenture.

"Standard & Poor's" means Standard & Poor's Corporation, its successors and assigns.

"Supplement" means any supplemental indenture amending or supplementing the Indenture.

"Tax Certificate" means the certificate by that name to be executed by the District on a Closing Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

"Tax-Exempt" means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

"Term Bonds" means the 2014 Term Bonds, the 2017, the 2023 Term Bonds and any Parity Bonds designated as Term Bonds.

"Treasurer" means the Treasurer-Tax Collector of the County acting on behalf of the District.

"2014 Term Bonds" means the Series 1998 Bonds maturing on October 1, 2014.

"2017 Term Bonds" means the Series 1998 Bonds maturing on October 1, 2017.

"2023 Term Bond" means the Series 1998 Bonds maturing on October 1, 2023.

"Underwriter" means, with respect to each issue of the Bonds, the institution or institutions, if any, with whom the applicable District enters into a purchase contract for the sale of such issue, and with respect to the Series 1998 Bonds, the firm of Stone & Youngberg LLC.

Nature of Bonds. The Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from (i) the Net Taxes and (ii) the amounts in the funds created hereunder and earnings thereon, other than moneys in the Administrative Expense Fund, the Improvement Fund (except for moneys in any Capitalized Interest Account established therein pursuant to the Indenture

or any Supplement) and the Rebate Fund. The Bonds and interest thereon, together with any premium paid thereon upon redemption, are not obligations of the School District, but are limited obligations of the District secured by and payable from an irrevocable first lien on the Net Taxes. Except with respect to the Special Tax, neither the faith and credit nor the taxing power of the District or the School District is pledged for the payment of the Bonds or the interest thereon, and no owner of the Bonds may compel the exercise of taxing power by the District or the School District or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the District, the School District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance, upon any of the District's property, or upon any of its income, receipts, or revenues, except the amounts which are, under the Indenture and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Education of the School District nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Notwithstanding anything contained in the Indenture, the District or School District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or for the performance of any covenants contained in the Indenture. The District or School District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Pursuant to the Act and the Indenture, the Bonds shall be equally payable from the Net Taxes without priority for number, issue date, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and moneys on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Bond Reserve Fund, which are set aside for the payment of the Bonds. The Net Taxes and any interest earned on the Net Taxes shall constitute a trust fund held for the benefit of the Owners of the Bonds to be applied to the payment of the principal of, premium, if any, and interest on the Bonds and so long as any of the Bonds remain Outstanding and shall not be used for any other purpose, except as permitted by the Indenture or any Supplement. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and Gross Taxes deposited in the Administrative Expense Fund shall no longer be considered to be pledged to the Bonds, and none of the Rebate Fund nor the Administrative Expense Fund nor the Special Reserve Fund nor the Cost of Issuance Account nor the Improvement Account of the Improvement Fund shall be construed as a trust fund held for the benefit of the Owners of the Bonds.

Nothing in the Indenture or any Supplement shall preclude (a) the redemption prior to maturity of any Bonds subject to call and redemption and payment of said Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California, or (b) subject to the limitations contained in the Indenture, the issuance of Parity Bonds payable from Net Taxes.

Description of Bonds. The Bonds shall bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment

Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest shall be payable with respect to each Bond on each Interest Payment Date until the principal sum of that Bond has been paid; provided, however, that if at the maturity date of any Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof, in full accordance with terms of the Indenture, such Bond shall then cease to bear interest.

The Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Fiscal Agent. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond 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 on such Interest Payment Date by first class mail to such Bondowner at his or her address as it appears on the Bond Register, or, upon the written request delivered to the Fiscal Agent, by the applicable Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, or, if the Fiscal Agent on behalf of the District is the Owner, by wire transfer on such Interest Payment Date in immediately available funds to an account at a financial institution in the continental United States designated by such Owner.

Creation of Funds. There are created and established and shall be maintained by the Fiscal Agent on behalf of the District the following funds and accounts.

- (1) The Poway Unified School District Community Facilities District No. 1 Special Tax Fund (the "Special Tax Fund").
- (2) The Poway Unified School District Community Facilities District No. 1 Administrative Expense Fund (the "Administrative Expense Fund") in which there shall be established and created a separate Account for each series of Bonds.
- (3) The Poway Unified School District Community Facilities District No. 1 Improvement Fund (the "Improvement Fund"), in which there shall be established and created for the Bonds and each series of Parity Bonds a Cost of Issuance Account and an Improvement Account.
- (4) The Poway Unified School District Community Facilities District No. 1 Bond Fund (the "Bond Fund"), in which there shall be established and created for each series of Bonds a Principal Account and an Interest Account.

(5) The Poway Unified School District Community Facilities District No. 1 Redemption Fund (the "Redemption Fund"), in which there shall be established and created for each series of Bonds an Optional Redemption Account and a Sinking Fund Redemption Account.

(6) The Poway Unified School District Community Facilities District No. 1 Reserve Fund (the "Reserve Fund") in which there shall be established and created a separate Account for each series of Bonds for which the Administrator elects to establish a Reserve Requirement.

(7) The Poway Unified School District Community Facilities District No. 1 Rebate Fund (the "Rebate Fund") in which there shall be established and created a separate Rebate Account for each series of Bonds, the interest on which is excluded from gross income for federal income tax purposes.

(8) The Community Facilities District No. 1 Special Revenue Fund (the "Special Revenue Fund"). The Special Revenue Fund has been established purely for the convenience of the District and may be terminated or modified by the District at any time, without need of obtaining any amendment to the Indenture pursuant to any provisions of Article VI of the Indenture.

The Fiscal Agent may establish additional accounts or subaccounts of the above described funds and accounts as the Fiscal Agent shall deem necessary in furtherance of its duties pursuant to the Indenture. In connection with the issuance of any Parity Bonds, the Fiscal Agent may create additional funds, accounts or subaccounts, or accounts within any of the foregoing funds, for the purpose of separately accounting for the proceeds of the Series 1998 Bonds and such Parity Bonds. The District may request the establishment of such additional accounts as it deems necessary to meet its obligations pursuant to Article V of the Indenture and the Fiscal Agent shall establish such accounts.

Special Tax Fund. Upon the receipt of Special Taxes and other amounts constituting Gross Taxes, including regular and any other apportionments of tax revenues from the County's Auditor-Controller, the District will authorize direct deposit of said Gross Taxes to the Fiscal Agent for deposit into the Special Tax Fund. In each Bond Year promptly following deposit therein, amounts in the Special Tax Fund shall be transferred to the following funds in the following order of priority and in the following amounts:

(1) To the Administrative Expense Fund until the total of deposits therein for such Bond Year is equal to the Administrative Expense Requirement for that Bond Year;

(2) To the Interest Account of the Bond Fund established for each series of Bonds an amount sufficient to make both interest payments due on such series of Bonds in such Bond Year;

(3) To the Principal Account of the Bond Fund established for each series of Bonds the total amount needed to make the principal payment due on the following October 1 of such Bond Year on the Outstanding Bonds, other than any Term Bonds of each series of Bonds;

(4) To the Sinking Fund Redemption Account of the Redemption Fund established for each series of Bonds the total amount needed to make the Sinking Fund Payment due on the following October 1 of such Bond Year on the Outstanding Term Bonds of each series of Bonds;

(5) To the Account of the Reserve Fund established for the Bonds and for each series of Parity Bonds for which a Reserve Requirement has been established, the amount required to bring the balance in each Account to its proportionate share of the Reserve Requirement;

(6) To the Administrative Expense Fund the amount of any Administrative Expenses for such Bond Year in excess of the amount deposited pursuant to (1) above, in the amount as directed by the Administrator;

(7) To the Rebate Fund the amount required to be set aside or rebated to the Internal Revenue Service pursuant to Section 3.10 of the Indenture; and

(8) 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 shall be deposited into the Special Revenue Fund.

Administrative Expense Fund. The Administrative Expense Fund has been established as a reserve for Administrative Expenses that are necessarily incurred in the performance of the District's and the Fiscal Agent's obligations under the Indenture. The Fiscal Agent shall apply the moneys on deposit in the Administrative Expense Fund for payment of Administrative Expenses, as directed by the Administrator in writing. All earnings on the Administrative Expense Fund shall be retained therein.

Bond Fund. The principal and interest on the Bonds until maturity shall be paid by the Fiscal Agent from the Bond Fund. At the maturity of a series of Bonds and, after all principal and interest then due on such series of Bonds has been paid or provided for, moneys in the Accounts of the Bond Fund established for such series shall be transferred to the Special Tax Fund.

Redemption Fund.

A. Moneys deposited in each Sinking Fund Redemption Account of the Redemption Fund pursuant to Section 3.03(4) of the Indenture shall be used and applied by the Fiscal Agent to call and redeem, in accordance with the provisions of Section 4.01(B) of the Indenture or any sinking fund redemption provision in a Supplement, Bonds of the same series for which such Account was established.

B. In any Bond Year, after making the deposits to the full amount required for such Bond Year pursuant to Section 3.03(4) of the Indenture, the District may elect to deposit money from the Special Tax Fund or the Special Revenue Fund to the Redemption Fund to call Bonds for optional redemption as set forth in Section 4.01(A) or in any optional redemption provision in a Supplement. The Fiscal Agent, at the written direction of the District, shall transfer from the Special Tax Fund or the Special Revenue Fund and deposit in any Optional Redemption Account of the Redemption Fund established for a series of Bonds moneys available for the purpose and sufficient

to redeem, at the premiums payable as provided in Section 4.01(A), of the Indenture or in any optional redemption provision in a Supplement, as applicable, any Bonds called for optional redemption.

Moneys set aside in an Optional Redemption Account of the Redemption Fund shall be used solely for the purpose of redeeming Bonds of the same series for which such Account was established and shall be applied on or after the redemption date to the payment of principal of and premium on the Bonds to be redeemed upon presentation and surrender of such Bonds.

If, after all of the Bonds of a particular series have been redeemed and canceled or paid and canceled, there are moneys remaining in any account of the Redemption Fund established for such series, said moneys shall be transferred to the Special Tax Fund; provided, that if said moneys are part of the proceeds of refunding bonds said moneys shall be transferred to the fund or account created for the payment of principal of and interest on such refunding bonds.

Reserve Fund.

A. There shall be maintained in an Account of the Reserve Fund for the Bonds, and in any Account of the Reserve Fund established for a series of Bonds, an amount equal to the Reserve Requirement for such series of Bonds. Moneys in each Account of the Reserve Fund are pledged only to repay the series of Bonds for which such Account was established.

B. Moneys in an Account of the Reserve Fund shall be used solely for the purpose of paying when due the principal of, including Sinking Fund Payments, and interest on the series of Bonds for which such Account was established in the event that the moneys in the Interest Account and the Principal Account of the Bond Fund established for such series of Bonds are insufficient therefor or moneys in the Sinking Fund Redemption Account are insufficient to make a mandatory sinking fund redemption in accordance with the provisions of any Supplement and for deposit to the Account of the Rebate Fund established for such series of Bonds as required. The Fiscal Agent shall withdraw from the Reserve Fund for deposit in the appropriate Account of the Bond Fund, the Redemption Fund or the Rebate Fund moneys necessary for such purpose.

C. On each date that the Fiscal Agent makes a transfer from an Account of the Reserve Fund to the Bond Fund, the Sinking Fund Redemption Account of the Redemption Fund or the Rebate Fund, the Fiscal Agent shall notify the Administrator, in writing, as to the date and amount of such transfer. The Fiscal Agent shall then notify the District of the amount needed to replenish the Reserve Fund to the Reserve Requirement.

D. When the moneys in all Funds and Accounts for the series of Bonds for which such Account was established, except the Rebate Fund and the Administrative Expense Fund, are sufficient to redeem all Outstanding Bonds of such series on the following Interest Payment Date, then, but only if authorized in writing by the Administrator, all moneys in such Account of the Reserve Fund shall be transferred, at the direction of the District, either to the Interest and Principal Accounts of the Bond Fund or the Sinking Fund Redemption Account of the Redemption Fund related to such series of Bonds at least two (2) business days prior to such final Interest Payment Date to be used to pay principal of and interest on such series of Bonds when due, or to the Optional

Redemption Account of the Redemption Fund for such series of Bonds to be used at the option of the Administrator to effect an optional redemption of Bonds pursuant to any Supplement on the earliest date on which all Outstanding Bonds of such series may be redeemed. Upon provision for payment or redemption of all Bonds and after payment of any amounts due to the Fiscal Agent and the Bond Insurer, all moneys remaining in the Reserve Fund shall be paid to the District.

E. Notwithstanding anything in the Indenture to the contrary, moneys in an Account of the Reserve Fund in excess of the portion of the Reserve Requirement required to be on deposit therein (other than investment earnings) shall be withdrawn from such Account of the Reserve Fund by the Fiscal Agent and shall be transferred to the Special Tax Fund and immediately deposited in the funds and accounts for the same series of Bonds as required pursuant to Section 3.03 above.

F. The District shall have the right at any time to release funds from the Reserve Fund for any series of Bonds, in whole or in part, by tendering to the Fiscal Agent: (1) a Reserve Policy, and (2) an opinion of Bond Counsel stating that such release will not, in and of itself, cause interest on the series of Bonds with respect to which such Reserve Policy is tendered, to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, the Fiscal Agent shall transfer such funds from the Reserve Fund to the Improvement Fund. Upon expiration of any Reserve Policy, the District shall be obligated either (a) to replace such Reserve Policy with a new Reserve Policy or (b) to deposit or cause to be deposited with the Fiscal Agent an amount of funds equal to the Reserve Requirement.

Improvement Fund.

A. The moneys in the Improvement Accounts of the Improvement Fund shall be applied exclusively to pay the Project Costs. Amounts to pay the costs of issuing Parity Bonds shall be paid from the Cost of Issuance Account established for such issue upon receipt by the Fiscal Agent of written direction from the Administrator stating the payee(s) and the amount(s) owing. Amounts for Project Costs shall be disbursed by the Fiscal Agent from the Improvement Account only upon receipt of a written certificate from the Administrator stating that (1) the conditions to the release of such funds have been satisfied, (2) the name of the person to whom payment is due, (3) the amount to be paid, (4) the purpose for which the obligation to be paid was incurred, and (5) there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, stop notice or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such certificate or written requisition, which has not been released or will not be released simultaneously with the payment of, such obligation, other than materialmen's or mechanic's liens accruing by mere operation of law.

B. Any moneys remaining in the Cost of Issuance Account for each series of Bonds after 180 days following the issuance of such series of Bonds shall be transferred to the Special Tax Fund for such series of Bonds. Costs of issuance may be paid from the Improvement Account for such series of Bonds.

C. The Fiscal Agent shall transfer all moneys on deposit in the Improvement Account of the Improvement Fund for each series of Bonds upon completion of the Project and at the direction of the Administrator either to the Special Tax Fund or to the Optional Redemption Account of the Redemption Fund for such series of Bonds and such amounts shall be applied to the redemption of the

Bonds of such series pursuant to Section 4.01(A) the Indenture or the corresponding optional redemption provision of any Supplement, as applicable.

D. Moneys transferred to an Optional Redemption Account of the Redemption Fund shall be invested at the written direction of the District at a Yield (as defined in the Tax Certificate) not in excess of the Yield (as defined in the Tax Certificate) on the applicable series of Bonds; provided, however, that such moneys may be invested at a Yield in excess of the Yield on the applicable series of Bonds if the District shall provide the Fiscal Agent with an opinion of Bond Counsel to the effect that such investment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

F. Notwithstanding anything in the Indenture to the contrary, and if any funds remain on deposit in all other Accounts and Subaccounts of the Improvement Fund for a series of Bonds more than three years from the original date of issuance of such Bonds, the Fiscal Agent shall immediately invest such amounts in Tax-Exempt Obligations at the direction of the District, or shall restrict the Yield (as defined in the Tax Certificate) on such amounts at the direction of the District such that the Yield (as defined in the Tax Certificate) on such amounts is not in excess of the Yield (as defined in the Tax Certificate) on the series of Bonds from which such proceeds were derived (and after October 1, 2000, the yield on the Bonds), unless in the opinion of Bond Counsel delivered to the Fiscal Agent such restriction is not necessary to prevent the exclusion of interest on the Bonds from gross income for federal income tax purposes from being adversely affected.

Earnings. All earnings (except earnings on the Administrative Expense Fund, Special Revenue Fund, the Rebate Fund and the Improvement Fund, which shall remain therein, and earnings on the Reserve Fund, which shall be transferred only to the extent not required to maintain the Reserve Requirement) on all Funds and Accounts established for a series of Bonds are to be transferred to the Special Tax Fund and immediately deposited in the funds and accounts for the same series of Bonds as required pursuant to Section 3.03 of the Indenture.

Rebate Fund.

A. The Fiscal Agent shall establish and maintain a fund separate from any other fund designated as the Rebate Fund and shall establish a separate Rebate Account therein for each series of Bonds, the interest of which is excluded from gross income for federal income tax purposes. All money at any time deposited in a Rebate Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by this Section 3.10 and the Tax Certificate, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

B. The following requirements shall be satisfied with respect to each Rebate Account for a series of Bonds:

(1) Within 55 days of the end of each Bond Year, the District shall calculate or cause to be calculated the amount of rebatable arbitrage for the issue of Bonds, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if

applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a "computation date" within the meaning of Section 1.148-1(b) of the Regulations (the "Rebatable Arbitrage"). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(2) Within 55 days of the end of each applicable Bond Year, upon the written direction of the Administrator which shall specify the source of any amounts to be deposited, an amount shall be deposited to each Rebate Account by the Fiscal Agent from any legally available funds provided to it by the District, including the Account of the Earnings Fund established for such series, if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated in accordance with clause (1) of this Subsection (A) with respect to the issue of Bonds. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the applicable Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from the Administrator, the Fiscal Agent shall withdraw the excess from such Rebate Account and then credit the excess to the Account of the Earnings Fund established for such series of Bonds.

C. The Fiscal Agent shall pay, as directed by the Administrator, to the United States Treasury, out of amounts in each Rebate Account,

(a) Not later than 60 days after the end of (i) the fifth Bond Year for a series of Bonds, and (ii) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year for such series of Bonds; and

(b) Not later than 60 days after the payment of all the Bonds of a series, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from a Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a) shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

D. Any funds remaining in the Accounts of the Rebate Fund established with respect to a series of Bonds after redemption and payment of such series of Bonds and the payments described in Subsection (A) may be withdrawn by the District and utilized for any lawful purpose of the District.

E. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of Section 3.10 of the Indenture shall survive the defeasance and final payment of the Bonds.

Special Revenue Fund. After making the transfers required by Sections 3.03(1) through 3.03(7) of the Indenture, in each Bond Year the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Special Revenue Fund. The amounts in the Special Revenue Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. Notwithstanding anything to the contrary contained in Article VI or elsewhere in the Indenture, the Special Revenue Fund has been established purely for the convenience of the District and may be terminated or modified by the District at any time, without need of obtaining any amendment to the Indenture pursuant to the provisions of Article VI of the Indenture.

Investments. Moneys held in any of the Funds and Accounts under this Indenture shall be invested at the written direction of the Administrator only in Authorized Investments which shall be deemed at all times to be a part of such funds and accounts. Authorized Investments may be purchased at such prices as may be directed by the Administrator in written directions (or telephonic directions confirmed in writing) delivered to the Fiscal Agent. All Authorized Investments shall be acquired subject to the limitations set forth in Section 5.02(F) of the Indenture, the limitations as to maturities in Section 3.12 of the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by the Administrator.

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 this 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 an Account of the Reserve Fund may be invested in such redeemable investments of any maturity on or prior to the final maturity of the series of Bonds for which such Account was established. 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.

Moneys in all Funds and Accounts may be aggregated for purposes of investing in Authorized Investments except when it is necessary to segregate a Fund or Account or portion thereof for purposes of restricting the Yield on the investment of such funds.

All interest, profits and other income received from the investment of moneys in any Fund or Account established for a series of Bonds pursuant to this Indenture shall be deposited as set forth in Section 3.09. Notwithstanding anything to the contrary contained in this section, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment shall be credited to the Fund or Account for the credit of which such Authorized Investment was acquired.

For the purpose of determining the amount in any Fund or Account other than the Reserve Fund, all Authorized Investments credited to such fund or account shall be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or par value (plus, prior to the first payment of interest following acquisition, the amount of any accrued interest paid as part of the purchase price). Authorized Investments in the Reserve Fund shall be valued at their fair market value at least semi-annually on or before each Interest Payment Date (or more frequently as may be requested by the Administrator).

The Fiscal Agent may act as principal or agent in the making or disposing of any investment. The Fiscal Agent may sell or present for redemption any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of Section 7.04 of the Indenture, the Fiscal Agent shall not be liable or responsible for any loss resulting from such investment.

In the absence of written investment direction from the Administrator, the Fiscal Agent shall invest solely in Authorized Investments set forth in subsection (7) of the definition thereof.

Covenants and Warranty

Warranty. The District shall preserve and protect the security of the Bonds and the rights of the Owners against all claims and demands of all persons.

Covenants. So long as any of the Bonds are Outstanding and unpaid (except for the covenant described in paragraph K below, which will survive the repayment of the Bonds), the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary, convenient and desirable to secure the Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes:

A. Protection of Security and Rights of Owners. From and after the delivery of any of the Bonds by the District, the Bonds shall be incontestable by the District. The District shall preserve and protect the security of the Bonds and the rights of the Owners against all claims and demands of all persons. District covenants that promptly following its receipt of notice that the County tax collector intends to sell, for non-payment of *ad valorem* property taxes, any parcel subject to the lien of the Special Taxes of the District, the District shall, before the date of such proposed *ad valorem* tax sale, take such actions as are necessary under California Revenue and Taxation Code Section 3695 (or similar laws from time-to-time in effect) to preserve and protect the lien of the Special Taxes of the District on such Parcel.

B. Modification of Maximum Authorized Special Tax. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and the District hereby does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from an Independent Financial Consultant which certifies 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 amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment for the District) in each Fiscal Year for any Bonds Outstanding will equal at least 125% of the Annual Debt Service in the Bond Year commencing in each such Fiscal Year on all Bonds to remain Outstanding after the reduction is approved. Nothing in this paragraph B shall limit the ability of the District to issue Parity Bonds pursuant to the provisions of Section 9.02 of the Indenture, including the requirement that the maximum Special Taxes that may be levied on certain Developed Property (as defined in Section 9.02(C)(5)(i) of the Indenture) by the District in each subsequent Fiscal Year shall be at least 110% of the Annual Debt Service for each remaining Bond Year on all Outstanding Bonds and the Parity Bonds issued. The District covenants that in the event that any initiative is proposed or adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in this Section or to limit the power of the District to levy the Special Taxes, District will commence and pursue legal action in order to preserve its ability to comply with such covenants.

C. No Tender of Bonds in Payment of Special Taxes. The District covenants that it shall not accept the tender of Bonds in lieu of cash for the payment of Special Taxes levied by the District.

D. Punctual Payment. The District covenants that it will receive all Gross Taxes in trust and will, consistent with Section 3.03 of the Indenture, deposit the Gross Taxes with the Fiscal Agent and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Gross Taxes, whether received by the District in trust or deposited with the Fiscal Agent, all as provided in the Indenture, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and in accordance with the Indenture to the extent Net Taxes and interest earnings transferred to the Special Tax Fund are available therefor, and that the payments into the Special Tax Fund, the Bond Fund, the Redemption Fund, the Reserve Fund and the Administrative Expense Fund will be made, all in strict conformity with the terms of the Bonds and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplements and of the Bonds issued under the Indenture.

E. Against Encumbrances. The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes, and, except for the issuance of Parity Bonds as permitted by Section 9.02 the Indenture, will not issue any obligation or security payable in whole or in part from the Net Taxes.

F. Levy of Special Tax. Commencing with Fiscal Year 1997-1998, the Board of Education of the School District, on behalf of the District, shall levy the Special Tax in an amount which, together with other available amounts on deposit with the Fiscal Agent, are sufficient to pay (i) the principal of and interest on the Bonds and the Administrative Expenses, and (ii) replenish the Reserve Fund to an amount equal to the Reserve Requirement so long as any Bonds are Outstanding. The District may reduce the amount to be levied hereunder by any amount, exclusive of Reserve Policy draws, to be transferred in the following Bond Year which is the final Bond Year for a series

of Bonds from any reserve account established for the District under the Indenture to the interest and principal accounts for such Series Bonds. Notwithstanding the foregoing, in no event shall the amount of the Special Tax exceed the amount specified in the Ordinance.

G. Commence Foreclosure Proceedings. Pursuant to Section 53356.1 of the Act, the District covenants for the benefit of the Owners of the Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied, and diligently pursue to completion such foreclosure proceedings; provided that, notwithstanding the foregoing, the District may elect (1) to defer foreclosure proceedings on any parcel with a delinquency of \$10,000 or less, so long as the amount in the Reserve Fund is at least equal to the Reserve Requirement, or (2) to accept payment from a property owner of less than the full amount of the penalties, interest, costs and attorneys' fees related to a Special Tax delinquency if permitted by law, if no default exists under the Indenture, or will be cured upon receipt of such payment, and if no default will occur under the Indenture in the Bond Year in which such settlement is entered into. In the event that the District elects to accept a payment under (2) above, any portion of the settlement amount received that exceeds the Special Taxes that are delinquent may be applied to pay Administrative Expenses of the District. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the balance in the Reserve Fund at the Reserve Requirement or the reserve balance in any reserve fund established under the Indenture at the required amount.

H. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Taxes or any part thereof, or upon any funds in the hands of the Fiscal Agent, or which might impair the security of the Bonds; provided that nothing in the Indenture shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

I. Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

J. Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other monies or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds;

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the District in connection with any of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein; and

(7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any of the Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Amendments to Indenture

Supplements Not Requiring Bond Owner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplements to the Indenture for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising under the Indenture or in any resolution or order of the District relating to the 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, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(d) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(e) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Net Special Taxes that may be levied in each year on property within the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds Outstanding as of the date of such amendment; or

(f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

No Supplement shall change the duties of the Fiscal Agent under the Indenture without the Fiscal Agent's written consent to the Supplement.

Supplements Requiring Bond Owner Consent. Exclusive of the Supplements described above, the Bond Insurer and Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve such Supplements as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing therein shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal or the payment date of interest on any Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplement, without in the case of (a) and (b) the consent of the Owner of such Bond and in the case of (c) and (d) the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to enter into a Supplement, which pursuant to the terms of Section 6.02 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 Supplement. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplement to be mailed, by first class mail 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 Supplement and shall state that a copy thereof is on file at the office of the Administrator for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplement when consented to and approved by the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding as required by this section. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent 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 Supplement described in such notice, and shall specifically consent to and approve the Supplement substantially in the form of the copy referred to in such notice as on file with the Administrator, such proposed Supplement, when duly entered into by the District and the Fiscal Agent, 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 then Outstanding have consented to the adoption of any Supplement, 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 execution and delivery by the District and the Fiscal Agent of any Supplement and the receipt of consent to any such Supplement from the Owners of not less than 60% in aggregate principal amount of Bonds Outstanding in instances where such consent is required pursuant to the provisions of this section, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District, the Fiscal Agent and all Owners of Bonds then Outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Notation of Bonds; Delivery of Amended Bonds. After the effective date of any action taken as provided in Article 6 of 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 Bond Outstanding 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 Bond Outstanding at such effective date such new Bonds shall be exchanged at the 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, for Bonds then Outstanding, upon surrender of such outstanding Bonds.

Notice Requirement. Prior to the effective date of any amendment made pursuant to Article 6 of the Indenture, so long as any Bonds or Parity Bonds are owned by the District, the District shall mail notice of the proposed amendment to the Rating Agency, the District, the District Fiscal Agent and the Bond Insurer.

Event of Default. Any one or more of the following events shall constitute an "event of default":

- (a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or from mandatory redemption;
- (b) Default in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or

(c) Default by the District in the observance of any of the agreements, conditions or covenants on its part in the Indenture or in the Bonds contained, and the continuation of such default for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Fiscal Agent, provided that if within 30 days the District has commenced curing of the default and diligently pursues elimination thereof, such period shall be extended to permit such default to be eliminated.

(d) The District shall become insolvent, not pay its debts as they become due, or be declared or petition to be declared bankrupt.

Remedies of Owners. Following the occurrence of an event of default, the Bond Insurer shall have the right to pursue any and all remedies given under the Indenture or at law or in equity. For purposes of exercising all rights and privileges available to Owners, the Bond Insurer shall be recognized as the registered owner of each Bond that it insures. Subject to the foregoing, 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 or her 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) Upon the happening of an event of default (as defined in Section 8.01 of the Indenture), 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 in 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 of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes 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.

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 Article VIII of 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 in the Indenture is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

In case the moneys held by the Fiscal Agent after an event of default pursuant to Section 8.01(a) or (b) of the Indenture shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

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 or any Supplement, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes and other amounts pledged under the Indenture to the repayment of such Bond, 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 and any Supplement shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to Section 9.01 of the Indenture, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and, after payment of any amounts due the Fiscal Agent thereunder, the Fiscal Agent shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest due on and the principal of such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of this section 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 or Parity Bond, as and when the same 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 Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund and available under the terms of the Indenture to pay such Bond, 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 the Fiscal Agent, or another escrow bank appointed by the District, in trust, (1) non-callable direct obligations of the United States of America ("Treasuries"), (2) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries 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 Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (3) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof) which shall be authorized to be used to effect defeasance of the

Bonds unless the Bond Insurer otherwise approves, in such amount as an Independent Financial Consultant shall determine will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve 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, notwithstanding that any Outstanding Bond shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplement 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 contained in Sections 3.10 and 5.02(F) of the Indenture. In connection with a defeasance under (b) or (c) above, there shall be provided to the District and the Bond Insurer a certificate of a certified public accountant acceptable to the Bond Insurer stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of and interest on any Outstanding Bond to be defeased in accordance with Section 9.01 of 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 and that such defeasance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Upon a defeasance, the Fiscal Agent shall release the rights of the Owners of such Bonds which have been defeased under the Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance of all Outstanding Bonds, the Fiscal Agent shall pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds or Parity Bonds when due. The Fiscal Agent shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

In the event a forward purchase agreement will be employed in the refunding, such agreement shall be subject to the approval of the Bond Insurer and shall be accompanied by such opinions of counsel as may be required by the Bond Insurer. The Bond Insurer shall be provided with final drafts of the above-referenced documentation, including any escrow deposit agreement, not less than five business days prior to the funding of the escrow.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Series 1998 Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and secured by a lien and charge upon the Net Taxes equal to the lien and charge securing the Series 1998 Bonds and any other Parity Bonds theretofore issued thereunder or under any Supplement, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in the Indenture and any Supplement 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.

(b) The issuance of such Parity Bonds shall have been duly authorized pursuant to the Act or any other applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplement duly adopted and executed by the District which shall specify the following:

(1) The purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied for any lawful purpose of the District, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount of such Parity Bonds;

(3) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on a October 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or 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;

(4) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) The denomination of such Parity Bonds;

(6) The redemption premiums, if any, and the redemption terms, if any, for such Parity Bonds;

(7) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(8) 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;

(9) The form of such Parity Bonds; and

(10) Such other provisions as are necessary or appropriate and not inconsistent with this Bond Indenture.

(c) The District shall have received 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 District shall direct the Fiscal Agent to accept any of such documents bearing a prior date):

(1) A certified copy of the Supplement authorizing the issuance of such Parity Bonds;

(2) A written request of the District as to the delivery of such Parity Bonds;

(3) An opinion of Bond Counsel to the effect that (a) the District has the right and power under the Act to adopt the Bond Indenture and the Supplements relating to such Parity Bonds, and the Indenture and all Supplements have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) 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 Supplements relating thereto and entitled to the benefits of the Indenture and all such Supplements, 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 Supplements; and 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 any tax-exempt bonds, including the Bonds, theretofore issued or the exemption from State of California personal income taxation of interest on any tax-exempt bonds theretofore issued under the Indenture or the Bonds;

(4) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) A certificate from one or more Independent Financial Consultants which, when taken together, certify that (i) on the basis of the parcels of land and improvements existing in the District as of the date of calculation, the amount of the maximum Special Taxes that may be levied on property for which a building permit has been issued by the County of San Diego as of the date of calculation ("Developed Property") by the District pursuant to the Act and the applicable resolutions and ordinances of the District in each subsequent Fiscal Year is at least 1.10 times the corresponding Annual Debt Service for each remaining Bond Year on all Outstanding Bonds theretofore issued and the Parity Bonds proposed to be issued, explicitly incorporating the effect of any scheduled expiration of taxing authority (i.e. after 25 years) with respect to such parcels of Developed Property, and assuming an escalation of such Special Taxes not to exceed 2% per annum, and (ii) the fair market value of the land in the District subject to the Special Tax, as determined by an MAI appraisal performed on a basis consistent with the School District's policies for appraisals for land-secured financings and the appraisal provided to the District in connection with the issuance of the Series 1998 Bonds, if any, or the assessed valuation of any land in the District subject to the Special Tax is at least 3 times the sum of (A) the aggregate principal amount of all Bonds then Outstanding, plus (B) the aggregate principal amount of the additional Parity Bonds proposed to be issued, plus (C) a portion of the aggregate principal amount of other community facilities district bonds, assessment district bonds, or water district improvement district bonds then outstanding and payable at least partially from special taxes or assessments to be levied on parcels of land within the District (the "Other Bonds") equal to the aggregate principal amount of the Other Bonds multiplied by a fraction, the numerator of which is the amount of special taxes and assessments, as applicable, levied for the Other Bonds on parcels

within the District, and the denominator of which is the total amount of special taxes and assessments levied for the Other Bonds on all parcels of land, based upon information from the most recent available fiscal year. For purposes of making the certifications required by this paragraph (c), the Independent Financial Consultants may rely on reports or certificates of such other persons as may be acceptable to the District, the Bond Insurer, the School District, Bond Counsel, and the underwriter of the proposed Parity Bonds; and

(6) A certificate from each municipal bond insurance company insuring the Bonds (if any of the Bonds or Parity Bonds are then owned by the District under the Indenture), the Bonds or any Parity Bonds consenting to the issuance of such Parity Bonds; and

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

Provisions Relating to Bond Insurance.

A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Bonds, the Fiscal Agent has not received sufficient moneys to pay all principal of and interest due on the Bonds, the Fiscal Agent shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Fiscal Agent shall so notify the Bond Insurer or its designee.

C. In addition, if the Fiscal Agent has notice that any Bondowner has been required to disgorge payments of principal or interest on the Bond to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes and avoidable preference to such Bondowner within the meaning of any applicable bankruptcy laws, then the Fiscal Agent shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Fiscal Agent is hereby irrevocably, appointed and authorized to act as attorney-in-fact for Owners of the Bonds as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Bonds, the Fiscal Agent shall (a) execute and deliver to (the Insurance Fiscal Agent), in form satisfactory to the Insurance Fiscal Agent an instrument appointing the Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Bond Insurer, (b) receive as designee of the respective Owners (and not as Fiscal Agent) in accordance with the Bond Insurance Policy payment from the Insurance Fiscal Agent with respect to the claims for interest as assigned, and (c) disburse the same to such respective Owners; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Bonds, the Fiscal Agent shall (a) execute and deliver to the Insurance Fiscal Agent in form satisfactory to the Insurance Fiscal Agent an instrument appointing the Bond Insurer as agent for such Owner in

any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the Obligation surrendered to the Insurance Fiscal Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Fiscal Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Fiscal Agent is received), (b) receive as designee of the respective Owners (and not as Fiscal Agent) in accordance with the Bond Insurance Policy payment therefor from the Insurance Fiscal Agent, and (c) disburse the same to such Owners.

E. Payments with respect to claims for interest on and principal of Bonds disbursed by the Fiscal Agent from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the District with respect to such Bonds, and the Bond Insurer shall become the owner of such demand obligation and claims for this interest in accordance with the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the District and the Fiscal Agent hereby agree for the benefit of the Bond Insurer that:

1. They recognize that to the extent the Bond Insurer makes payments, directly or indirectly (as by paying through the Fiscal Agent), on account of principal of or interest on the Bonds, the Bond Insurer will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the District, with interest thereon as provided and solely from the sources stated in this Indenture and the Bonds; and

2. They will accordingly pay to the Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the Bond, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Bonds to Owners, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

G. In connection with the issuance of additional Bonds, the District shall deliver to the Bond Insurer a copy of the disclosure document, if any, regulated with respect to such additional Bonds.

H. Copies of any amendments made to the documents executed in connection with the issuance of the Bonds which are consented to by the Bond Insurer shall be sent to Standard & Poors and Moody's.

I. The Bond Insurer shall receive notice of the resignation or removal of the Fiscal Agent and the appointment of a successor thereto.

J. The Bond Insurer shall receive copies of all notices required to be delivered to Bondowners and, on an annual basis, copies of the District's audited financial statements and annual budget.

Notices. Any notice that is required to be given to an Owner or to the Fiscal Agent pursuant to the Indenture shall also be provided to the Bond Insurer. All notices required to be given to the Bond Insurer shall be in writing and shall be sent by registered or certified mail to MBIA Insurance Corporation, 113 King Street, Armonk, New York, 10504, Attention Surveillance.

APPENDIX D
SPECIMEN OF INSURANCE POLICY



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Poway Unified School District for and on behalf of Community Facilities District No. 1 of the Poway Unified School District (the "Issuer") and First Trust of California, National Association, as fiscal agent (the "Fiscal Agent") and as dissemination agent (the "Dissemination Agent"), in connection with the issuance and delivery by the Issuer of its \$80,000,000 Series 1998 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of December 1, 1998 (the "Indenture"), by and between the Issuer and the Fiscal Agent. The Issuer, the Fiscal Agent and the Dissemination Agent covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, the Fiscal Agent and the Dissemination Agent, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the 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 Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income purposes.

"Disclosure Representative" shall mean the Finance Director of the Poway Unified School District or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, First Trust of California, National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent a written acceptance of such designation.

"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 purpose of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories
P. O. Box 840
Princeton, New Jersey 08542-0840
Phone: (609) 279-3200
Fax: (609) 279-5962
E-mail: [Munis@Bloomberg.com](mailto: Munis@Bloomberg.com)

Kenny Information Systems, Inc.
Attention: Kenny Repository Service
65 Broadway, 16th Floor
New York, New York 10006
Phone: (212) 770-4595
Fax: (212) 797-7994

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: [nrmsir@dpccdata.com](mailto: nrmsir@dpccdata.com)

Thomson NRMSIR
Attention: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10004
Phone: (212) 807-5001 or (800) 689-8466
Fax: (212) 989-2078
E-mail: [Disclosure@Muller.com](mailto: Disclosure@Muller.com)

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"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.

"Tax-exempt" shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than six (6) months after the end of the Issuer's fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 1998, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. 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 Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Fiscal Agent and the Dissemination Agent of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Fiscal Agent has not received a copy of the Annual Report, the Fiscal Agent shall contact the Issuer and the Dissemination Agent to determine if the Issuer is in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Fiscal Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Fiscal Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) 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; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent 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 Issuer's Annual Report shall contain or include by reference:

(a) The audited financial statements of the Issuer, if any, for the most recent fiscal year of the Issuer then ended. If the Issuer prepares audited financial statement and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited

financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to each Repository, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

- (b) The following information:
 - (i) the principal amount of Bonds outstanding;
 - (ii) the balance in each fund under the Indenture as of the August 2 preceding the filing of the Annual Report;
 - (iii) the number of parcels that were newly categorized under the Revised Rate and Method of Apportionment for the Special Tax as residential Developed Property or the number of parcels of Undeveloped Property, if any, on which Special Taxes have been levied for the most recent Special Tax levy preceding the filing of the Annual Report;
 - (iv) an update of the table in the Official Statement for the Bonds under the caption "THE COMMUNITY FACILITIES DISTRICT - 1997-98 Special Tax Levy" setting forth the information for the most recent Special Tax levy preceding the filing of the Annual Report;
 - (v) an update of the table in the Official Statement for the Bonds under the caption "THE COMMUNITY FACILITIES DISTRICT - Delinquency History" setting forth the information for the preceding five (5) fiscal years based on information available as of June 30 of the preceding fiscal year;
 - (vi) the number of parcels which are delinquent with respect to their Special Tax payments, the amount that each parcel is delinquent, the length of time that each has been delinquent, and when foreclosure was commenced for each delinquent parcel;
 - (vii) the total assessed value of all parcels subject to the Special Tax as shown on the most recent equalized roll;
 - (viii) an update of the information in the Official Statement for the Bonds under the caption "THE COMMUNITY FACILITIES DISTRICTS - Estimated Assessed Value-to-Lien Ratios and Tax Burdens" if an agency has increased the rate of its *ad valorem* levy from that set forth in the Official Statement or if any taxes or assessments have been levied on the properties subject to the Special Tax to secure indebtedness not described in any prior Annual Report;

- (ix) an update of the tables in the Official Statement for the Bonds under the caption "SOURCES OF PAYMENT FOR THE BONDS - Estimated Debt Service Coverage" in the event that since the date of the last Annual Report the maximum Special Tax rates have been amended;
- (x) any changes to the Revised Rate and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report; and
- (xi) any information not already included under (i) through (x) above that the Issuer is required to file in its annual report to the California Debt Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer 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 Issuer 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 Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies.
- (2) an event of default under the Indenture other than as described in (1) above.
- (3) unscheduled draws on the Reserve Fund reflecting financial difficulties.
- (4) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties.
- (5) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy.
- (6) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.
- (7) amendment to the Indenture or this Disclosure Agreement modifying the rights of Bond Owners.
- (8) unscheduled redemption of any Bond.
- (9) defeasances.

(10) any release, substitution, or sale of property securing repayment of the Bonds.

(11) rating changes.

(b) The Fiscal Agent shall, promptly upon the obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer pursuant to the Indenture, inform such person of the event, and request that the Issuer 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 such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Fiscal Agent with regular responsibility for the administration of matters related to the Indenture.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable federal securities laws, the Issuer 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 Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and that the Fiscal Agent or the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the Issuer, the Fiscal Agent and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be First Trust of California, National

Association . The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer and the Fiscal Agent and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment. (a) This Disclosure Amendment may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Fiscal Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer and the Fiscal Agent, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to each Repository.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners of the Bonds.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report 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. Such comparison shall include a quantitative and, to the extent reasonably feasible, 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.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer 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 Issuer 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 Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer 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 Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Fiscal 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. Article VII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent and the Fiscal Agent shall be entitled to the same protections, limitations from liability and indemnities hereunder as are afforded the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and the Fiscal Agent and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Fiscal Agent's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Fiscal Agent shall have no duty or obligation to review any information provided to them hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and Fiscal Agent and payment of the Bonds. No person shall have any right to commence any action against the Fiscal Agent or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent and the Fiscal Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	Finance Director Poway Unified School District 13626 Twin Peaks Road Poway, California 92064-3098
Dissemination Agent:	First Trust of California, National Association 550 South Hope Street, 5th Floor Los Angeles, California 90071
Fiscal Agent:	First Trust of California, National Association 550 South Hope Street, 5th Floor Los Angeles, California 90071

SECTION 14. 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.

Date: February 4, 1998

POWAY UNIFIED SCHOOL DISTRICT for and on
behalf of COMMUNITY FACILITIES DISTRICT NO.
1 OF THE POWAY UNIFIED SCHOOL DISTRICT

By: _____
Finance Director

FIRST TRUST OF CALIFORNIA, NATIONAL
ASSOCIATION , as Fiscal Agent and Dissemination
Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Poway Unified School District for and on behalf of Community Facilities District No. 1 of the Poway Unified School District

Name of Bond Issue: Community Facilities District No. 1 of the Poway Unified School District Series 1998 Special Tax Bonds

Date of Issuance: February 4, 1998

NOTICE IS HEREBY GIVEN that the Poway Unified School District acting for and on behalf of Community Facilities District No. 1 of the Poway Unified School District (the "School District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of January 1, 1998, by and between the School District and First Trust of California, National Association, as fiscal agent and dissemination agent. [The School District anticipates that the Annual Report will be filed by _____.]

Dated: _____

FIRST TRUST OF CALIFORNIA, NATIONAL
ASSOCIATION, as Dissemination Agent

cc: Poway Unified School District

APPENDIX F
SUMMARY OF APPRAISAL REPORT

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SUMMARY APPRAISAL REPORT

COVERING

Poway Unified School District
Community Facilities District No. 1
City of San Diego

DATE OF VALUE:

November 1, 1997

SUBMITTED TO:

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

Attn: Robert Cornelius
Assistant Superintendent,
Business

DATE OF REPORT:

December 3, 1997

SUBMITTED BY:

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

Stephen G. White, MAI



Real Estate Appraiser

1370 N. BREA BLVD., SUITE 205 · FULLERTON, CALIFORNIA 92835-4128
(714) 738-1595 · FAX (714) 738-4371

December 3, 1997

Poway Unified School District Re: Community Facilities District
13626 Twin Peaks Rd. No. 1, City of San Diego
Poway, CA 92064-3098

Attn: Robert Cornelius
Assistant Superintendent, Business

Dear Mr. Cornelius:

In accordance with your request and authorization, I have completed a limited mass appraisal on part of the properties, and general data on the remaining properties in the above-referenced Community Facilities District (CFD). This limited mass appraisal assignment has consisted of the following:

- * Segregate the properties in this CFD by assessor parcel number (APN) into the categories of Developed Residential, Residential-Under Construction, Developed Non-Residential, Undeveloped Residential, Undeveloped Non-Residential, and Open Space-Miscellaneous.
- * For the Developed Residential, to further segregate by the four separate communities of Rancho Bernardo, Penasquitos East, Carmel Mountain Ranch and Sabre Springs; prepare a database for each community which includes each APN, the assessed value, all sales of these parcels from January through October of this year, and a comparison of the average assessed value per parcel with the average sale price per parcel; for the five apartment complexes, complete a very Limited Appraisal in order to test if the assessed value is reasonable and supportable.
- * For the remaining categories, to prepare a database covering the entire CFD, which includes all parcels by APN, assessed value (where available), and a brief description of the existing or planned property type.

It is noted that only the Developed Residential properties are subject to the special tax lien for this Community Facilities District. The Residential-Under Construction properties will be subject to the special tax lien in the next tax year, the Undeveloped Residential properties will be subject to the special tax lien upon development, but the other categories of properties are not subject to the special tax lien.

Thus, the primary purpose of this appraisal has been to test whether the current assessed values of the Developed Residential properties are reasonable and supportable value indications on a mass basis. A secondary purpose is to segregate and present general data on the Residential-Under Construction and the Undeveloped Residential properties. Lastly, for general information purposes, data is presented on the remaining categories of Developed Non-Residential, Undeveloped Non-Residential and Open Space-Miscellaneous which are located within the CFD.

MR. ROBERT CORNELIUS
DECEMBER 3, 1997
PAGE 2

The total assessed values of the Developed Residential properties, segregated by area, are as follows:

Developed Residential: Rancho Bernardo -	\$182,749,918
Penasquitos East -	\$672,431,464
Carmel Mountain Ranch -	\$535,396,383
Sabre Springs -	<u>\$255,136,323</u>
	\$1,645,714,088

For general information purposes, the total assessed values for the other categories of property type, are as follows:

Residential-Under Construction:	n/a
Undeveloped Residential:	\$ 20,443,058
Developed Non-Residential:	\$200,247,582
Undeveloped Non-Residential:	\$ 6,545,443
Open Space-Miscellaneous:	\$ 4,895,952

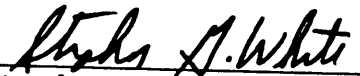
For the Developed Residential, the detached homes and attached townhomes or condominiums comprise \$1,554,039,702 or 94% of the total, and the five apartment complexes comprise \$91,674,386 or 6% of the total assessed value. Based on the data presented in this report, the overall average assessed value for the 7,402 detached and attached homes is \$209,949. In addition, the overall average sale price from recent sales of 487 of these homes is \$225,411, or 7.4% greater than the average assessed value.

The five apartment properties comprise a total assessed value of \$91,674,386 or 6% of the total for the Developed Residential. The limited or preliminary analysis of these properties indicates that the total value would be at least \$134,000,000 or higher.

In summary, the conclusion for the Developed Residential is that the assessed values are reasonable and supportable on a mass basis, or as an overall total for the CFD.

The following is the balance of this 30-page Summary Appraisal Report which includes the Certification, Assumptions and Limiting Conditions, definitions, general description of the overall CFD and communities which it comprises, and the discussion of the data and the analyses, but exclusive of the various detailed databases.

Very truly yours,



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

SGW:sw
ref:97031

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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, unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the properties that are the subject of this report, and I have no personal interest or bias with respect to the parties involved.
4. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
5. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
6. A general inspection of the subject area has been made, but I have not made a personal inspection of each property that is the subject of this report.
7. No one provided significant professional assistance to the person signing this report.
8. 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 legal descriptions or for matters pertaining to legal or title considerations. Title to the properties is assumed to be good and marketable unless otherwise stated.
2. The properties are considered as free and clear of any or all pertinent liens or encumbrances, other than mortgages, 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. The plot plans and illustrative material in this report are included only to help the reader visualize the properties.
6. It is assumed that there are no hidden or unapparent conditions of the properties, subsoil, or structures that render them more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the properties are in full compliance with all applicable federal, state and local environmental regulations and laws unless the lack of compliance is stated, described and considered in the appraisal report.
8. It is assumed that the properties conform to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents and other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the properties described and that there is no encroachment or trespass unless noted in the report.

ASSUMPTIONS AND LIMITING CONDITIONS, Continuing

11. It has been assumed that hazardous materials do not exist on the subject properties, which could cause a negative effect on the property values. However, the appraiser has not made a detailed inspection of all of the subject properties, and is not qualified to detect such substances. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
12. Possession of this report, or a copy thereof, does not carry with it the right of publication.
13. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
14. It is expressly stated that this is a limited mass appraisal, only intended to provide supporting data and analyses to indicate whether certain of the assessed values are reasonable and supportable on a mass basis. This appraisal is not intended to provide individual value conclusions on any of the subject properties.
15. The original database of Assessor Parcel Numbers and assessed values for all parcels within this CFD were provided by David Taussig & Associates, Inc., and it has been assumed that this database is complete and accurate.
16. It is understood and agreed that this report or a summary of this report will be utilized in the Official Statement, as required for the bond issuance.

PURPOSE AND USE OF THE APPRAISAL

The primary purpose of this appraisal is to test whether the current assessed values of the Developed Residential properties are reasonable indications on a mass or bulk basis. A secondary purpose is to present general data, including assessed values where available, on the Residential-Under Construction properties, Undeveloped Residential properties, Developed Non-Residential properties, Undeveloped Non-Residential properties, and Open Space-Miscellaneous properties. This appraisal report is to be used by the client as required in the bond issuance.

SCOPE OF THE APPRAISAL

It is the intent of this limited mass appraisal to provide general descriptive information and exhibits on the overall Community Facilities District (CFD) and the communities which it includes; to prepare and refer to databases of all properties by Assessor Parcel Number which are included in the CFD as segregated into the categories of Developed Residential, Residential-Under Construction, Undeveloped Non-Residential, Developed Non-Residential, Undeveloped Non-Residential, and Open Space-Miscellaneous; to test by considering recent sales of the detached and attached homes in the Developed Residential properties whether the assessed values on those properties on a mass or bulk basis are reasonable and supportable; to consider limited data on the five apartment properties as to the reasonableness of their assessed values; and provide general data including assessed values on the remaining categories of properties.

Thus, this appraisal assignment invokes the Departure Provision of the Uniform Standards of Professional Appraisal Practice (USPAP), in that a complete appraisal of the properties has not been made, nor has an opinion of value been provided on any one of the individual properties within the subject CFD.

DATE OF VALUE

The date of value for this limited appraisal is considered to be November 1, 1997.

PROPERTY RIGHTS APPRAISED

In the context of this limited appraisal on a mass basis, the fee simple interest is the basis of the values.

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.

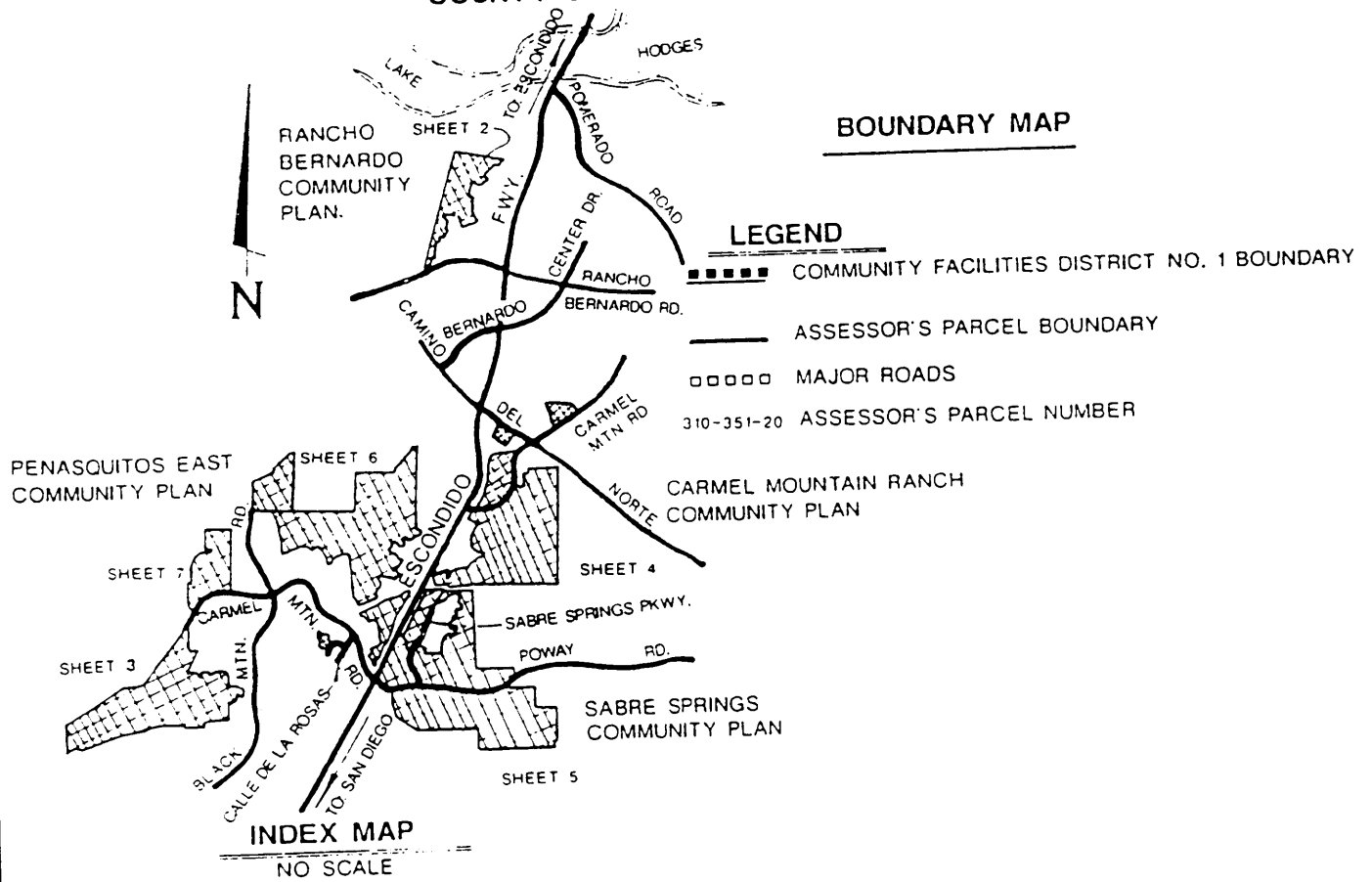
DEFINITION OF MASS APPRAISAL

Per the Dictionary of Real Estate Appraisal, Third Edition, published by the Appraisal Institute, a mass appraisal is defined as "the process of valuing a universe of properties as of a given date utilizing standard methodology, employing common data, and allowing for statistical testing.

(It is noted that this limited mass appraisal does not provide specific values for individual properties, other than ranges for the five apartment properties, but rather provides data and analyses to indicate whether the assessed values are reasonable and supportable.)

MAP OF CFD NO. 1

**COMMUNITY FACILITIES DISTRICT NO. 1
POWAY UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO, CALIFORNIA**



DESCRIPTION OF CFD NO. 1

GENERAL OVERVIEW

Community Facilities District (CFD) No. 1 consists of various non-contiguous areas which are part of the Poway Unified School District, and are located toward the north end of the City Limits of San Diego. As shown on the map on the opposite page, the areas of this CFD are located on both sides of I-15 (Escondido) Freeway, from south of Poway Rd. at the south end to north of Rancho Bernardo Rd. at the north end.

More specifically, the various areas of this CFD comprise portions of the master-planned communities of Rancho Bernardo, Rancho Penasquitos (formerly Penasquitos East), Carmel Mountain Ranch, and Sabre Springs. These communities have been approved and developed under separate Community Plans, but are all within the City of San Diego.

The CFD comprises a reported total of approximately 5,200 acres of land. Based on the data provided for this report, there are 7,402 parcels comprising existing dwelling units of either detached or attached homes. There are also 1,580 existing apartment units within five complexes. In addition, there are 464 parcels comprising the Residential-Under Construction category, and there is land categorized as Undeveloped Residential, on which there are more residential units to be built in the future.

The other parcels within this CFD consist of developed non-residential properties (commercial, industrial, community facilities, golf course, etc.), undeveloped non-residential properties, and open space-miscellaneous properties. Thus, for purposes of this report, the parcels comprising this CFD have been segregated into the following six categories:

- Developed Residential
- Residential-Under Construction
- Undeveloped Residential
- Developed Non-Residential
- Undeveloped Non-Residential
- Open Space-Miscellaneous

On the two following pages are copies of aerial photographs obtained from Aerial Fotobank Inc., which were flown on January 18, 1997. The various areas of the CFD have been approximately outlined by the red lines. The first photo is of the Rancho Bernardo area, and the second photo comprises the Penasquitos East, Carmel Mountain Ranch and Sabre Springs areas. The areas at the far east side of Carmel Mountain Ranch and Sabre Springs are just off the edge of the photo.

Thereafter are descriptions of the four communities and areas within the CFD, followed by discussion of the analyses and conclusions. More detailed maps of the CFD and all of the database pages are under the Addenda tab.



COMMUNITY FACILITIES DISTRICT
 NO. 1 OF THE POWAY UNIFIED
 SCHOOL DISTRICT

DATE FLOWN: JANUARY 18, 1997
 PHOTO 1 OF 2

COMMUNITY FACILITIES DISTRICT
NO. 1 OF THE POWAY UNIFIED
SCHOOL DISTRICT

DATE FLOWN: JANUARY 18, 1997
PHOTO 2 OF 2



DESCRIPTION OF RANCHO BERNARDO

The community of Rancho Bernardo is located 25 miles north of downtown San Diego, at the most northeastern tip of the city limits of San Diego. It lies on both sides of the I-15 Freeway, generally northerly from Camino del Norte, and comprises a total area of approximately 6,643 acres. It is bounded on the north by the City of Escondido, on the east by the City of Poway, on the south by the communities of Rancho Penasquitos and Carmel Mountain Ranch, and on the west by unincorporated County area.

In 1990 the population was estimated at 34,818. By 1994 the population was estimated at 37,704, indicating a growth of 8.3% or 2% per year during this period. It is projected that the population will peak at nearly 40,000 by the year 2000. The residential area is expected to be built out by that time, with a total of 17,829 dwelling units. However, there will be continued development in the Industrial Park and other commercial locations.

Rancho Bernardo is considered to be a desirable residential area, with a wide variety of good quality residential neighborhoods, good freeway accessibility to Mission Valley and downtown San Diego, industrial and commercial facilities within the community, and many nearby cultural and recreational amenities. The desirability is evidenced by the fact that the median income of Rancho Bernardo is \$49,576 which is higher than that of residents throughout the City of San Diego.

DESCRIPTION OF THE CFD AREA

The north part of CFD No. 1 is located in the northwest part of Rancho Bernardo, lying west of the I-15 Freeway, and north from Rancho Bernardo Rd. This location is shown on a more detailed map under the Addenda tab.

The Developed Residential property consists of 551 detached homes and a 402-unit apartment complex. The Residential-Under Construction consists of one of the custom residential lots, and the Undeveloped Residential consists of 21 custom lots at the southerly end of the CFD area. The balance of the CFD area consists of open space or greenbelt areas of homeowner associations.

DESCRIPTION OF PENASQUITOS EAST (RANCHO PENASQUITOS)

This is referred to in the CFD documents as Penasquitos East, but is now commonly referred to as Rancho Penasquitos. This community is located on the west side of the I-15 Freeway, about 17 miles north of downtown San Diego. It is bounded on the north by the community of Rancho Bernardo, on the east by the communities of Carmel Mountain Ranch and Sabre Springs, on the south by the Los Penasquitos Canyon Preserve and the

DESCRIPTION OF PENASQUITOS EAST (RANCHO PENASQUITOS), Continuing

community of Mira Mesa, and on the west by undeveloped hilly area within the city limits of San Diego.

Rancho Penasquitos encompasses approximately 6,500 acres. Actual development of this area began in the late 1960's but the major growth has occurred in the past 13 years. As of January 1991 the population was estimated at 42,500. At full build-out the population is projected to be about 46,000 to 50,000, with a total of approximately 15,800 dwelling units.

Approximately 51% of the land area in Rancho Penasquitos is planned for residential use, with 76% as single family and 24% as multi-family. Commercial uses are planned on 2% of the land area, Industrial on 1%, Institutional on 3%, Streets and Utilities on 9%, and parks/open space comprising the remaining 34% of the land area. This open space includes numerous canyons, hillsides and ridges, including Black Mountain which rises to an elevation of 1,500' in the north part of the community.

Due to the undulating topography and significant amount of open space within the community, many of the residential units have the desirable factors of territorial views or backing to open space. There is good accessibility by the nearby I-15 Freeway, as well as the Ted Williams Freeway which is partially completed through the center of the community. There are several neighborhood shopping centers in the community as well as larger retail centers nearby in Carmel Mountain Ranch.

DESCRIPTION OF THE CFD AREA

The west central and southwest parts of CFD No. 1 are located in Rancho Penasquitos, comprising portions of the north and southwest areas of the community. These areas are shown in more detail on three maps under the Addenda tab.

The Developed Residential property consists of 3,034 dwelling units, including both detached homes and attached townhomes or condominiums. The Residential-Under Construction and the Undeveloped Residential consist of two adjacent tracts of homes, Ridgepointe and Ridgeview, which are currently under construction, and will contain a total of 114 homes. There is also other vacant land which is designated on the Community Plan for residential. The balance of the CFD area consists primarily of open space, with a minor amount of Developed and Undeveloped Non-Residential.

DESCRIPTION OF CARMEL MOUNTAIN RANCH

This community is located along the east side of the I-15 Freeway, about 18 miles north of downtown San Diego, extending from Ted Williams Parkway north to Camino Del Norte. It is

DESCRIPTION OF CARMEL MOUNTAIN RANCH, Continuing

bounded on the north by the community of Rancho Bernardo, on the east by the City of Poway, on the south by the community of Sabre Springs, and on the west by the I-15 Freeway with the community of Rancho Penasquitos beyond.

Carmel Mountain Ranch is a planned community which encompasses approximately 1,489 acres. The planning of this community intended to combine a balance of employment and housing, with commercial and industrial areas, a wide range of moderately-priced housing, as well as recreation and open space areas. The community plan calls for 626 acres of residential development comprising a total of 4,997 dwelling units, with 180.5 acres of industrial, 132.4 acres of commercial, 82.8 acres of community facilities, 347.2 acres of parks and recreation, and 120.1 acres of roads.

The residential development is to contain 563 dwelling units of low density housing, 3,170 dwelling units of low-medium density housing, and 1,264 dwelling units of medium density housing. Two large areas toward the north end of the community are planned and partly developed with industrial-office uses, including a hospital. Along the freeway and in the central part of the community is a large commercial-retail improved with a regional center and many large retail stores. The Carmel Mountain Ranch Country Club extends through the southerly and center portions of the community, meandering through residential neighborhoods.

It is estimated that Carmel Mountain Ranch will have an ultimate population of near 12,000. Development commenced in the mid-1980's, and the majority of the community is now built-out. Several last residential neighborhoods are currently under construction at the south end of the community in the hilly area south of Ted Williams Parkway.

In summary, this community has the desirable factors of a good balance of residential, commercial, industrial and recreational development. Regional and neighborhood shopping facilities are located within the community, and the business park provides many employment opportunities. The golf course-country club is a desirable feature and provides frontage to many homes in various neighborhoods. In addition, there is good accessibility to downtown San Diego and other areas via the I-15 Freeway.

DESCRIPTION OF THE CFD AREA

The east central part of CFD No. 1 comprises a large part of the community of Carmel Mountain Ranch. This is shown in more detail on the map under the Addenda tab.

The Developed Residential property consists of 2,327 dwelling units of both detached homes and attached townhomes or

DESCRIPTION OF THE CFD AREA, Continuing

condominiums, and 986 apartment units within three complexes. The Residential-Under Construction and the Undeveloped Residential consists of two adjacent tracts of homes currently under construction, The Bluffs and The Summit, which will total 200 homes, and other vacant land which may be developed with some residential. The balance of the CFD area consists of much Developed Non-Residential, including regional and neighborhood retail centers and the golf course/country club, a minor amount of Undeveloped Non-Residential, together with Open Space-Miscellaneous.

DESCRIPTION OF SABRE SPRINGS

This community is located along the east side of the I-15 Freeway, about 17 miles north of downtown San Diego. It extends from just north of Scripps Poway Parkway north to Ted Williams Parkway, and is bisected by Poway Rd. which runs east-west through the community. Sabre Springs is bounded on the north by the community of Carmel Mountain Ranch, on the east by the City of Poway, on the south by the community of Miramar Ranch North, and on the west by the I-15 Freeway with the community of Rancho Penasquitos beyond.

Sabre Springs is a planned community which encompasses approximately 1,514 acres. Approximately 47% is developable and the balance is hilly and canyon-creekbed open space. Chicarita Creek runs through the northern part of the community and ultimately into Penasquitos Creek, which runs east-west through the southern part of the community and into Penasquitos Canyon to the west.

The Land Use Plan allocates approximately 480 acres or 68% of the developable area for residential development with a maximum of 5,290 dwelling units. Commercial development is planned on 38.8 acres, industrial development is planned on 71.5 acres, community facilities (schools, parks, churches, etc.) are planned on 54 acres, streets are planned on 66.9 acres and Open Space is planned on 802.3 acres.

It is estimated that Sabre Springs will have an ultimate population of near 12,000. Development commenced in 1989, and much of the residential development has been completed. Homes are currently under construction in the southeast part of the community, with some remaining undeveloped land in that area as well as in the northwest part of the community. Only part of the industrial development has occurred in the area along the freeway, southerly from Ted Williams Parkway. The retail center at Poway Rd. and Sabre Springs Parkway is completed, but much other undeveloped commercial land remains.

In summary, this community has the desirable factors of a good balance of residential, commercial and industrial development, along with a substantial amount of open space. Some shopping

DESCRIPTION OF SABRE SPRINGS, Continuing

facilities will be located in the community, and much other facilities are located nearby in Carmel Mountain Ranch. In addition, there is good accessibility to downtown San Diego and other areas via the I-15 Freeway.

DESCRIPTION OF THE CFD AREA

The southeast part of CFD No. 1 comprises a large part of the community of Sabre Springs, excepting most of the developed residential area in the north part of the community. This is shown in more detail on the map under the Addenda tab.

The Developed Residential property consists of 1,490 dwelling units of both detached homes and attached townhomes or condominiums, and a 192-unit apartment complex. The Residential-Under Construction and the Undeveloped Residential includes several tracts of homes currently under construction, Monterey, Belle Fleur and Hillsborough, and much other land which is planned for unspecified residential development.

The balance of the CFD area consists of much Developed Non-Residential, including retail, office and industrial buildings, various other parcels planned for commercial or industrial development, and many other parcels categorized as Open Space-Miscellaneous.

VALUATION

METHOD OF ANALYSIS

Developed Residential

As previously discussed, the primary focus of this analysis is to list and total the assessed values of the Developed Residential properties, and test whether these assessed values are reasonable and supportable on a mass basis. These properties have been segregated into the four communities, Rancho Bernardo, Penasquitos East, Carmel Mountain Ranch, and Sabre Springs.

In order to accomplish the testing on the detached homes and attached townhomes-condominiums, any sales of these properties from January through October of this year have been considered. The sales data was obtained from Experian assessor records and from the Multiple Listing Service. The number of sales which were found represent from 5% to 8% of the total number of parcels within each community.

The sale prices can then be compared to the assessed values for the properties which sold, indicating whether the sale price is higher, lower or the same as the current assessed value. Then, on a mass basis for each community, the average sale price per parcel is compared to the average assessed value per parcel. The result of the comparison is an indication of whether the assessed values are reasonable and supportable, on a mass or community-wide basis.

The assessed values on the five apartment properties were tested by completing a very limited appraisal on each property. Information was obtained on the five properties, including the number of units, the unit mix of 1, 2 or 3-bedroom units, unit sizes, current rents and current occupancy rates. Then, comparable sales were obtained in order to estimate approximate value ranges for the subject properties to compare to the assessed values.

Other Property Categories

As previously discussed, these categories include Residential-Under Construction, Undeveloped Residential, Developed Non-Residential, Undeveloped Non-Residential, and Open Space-Miscellaneous. The data on these categories is of less significance, since these properties are not included in the current tax base for generating the special taxes.

Thus, the properties comprising these categories are listed by APN, with other available information that may include the house size, parcel size by acreage, the property owner, the assessed value, and comments as to the existing property use or the planned use. These properties have not been segregated into the four communities.

ANALYSIS OF RANCHO BERNARDO DEVELOPED RESIDENTIAL

Detached/Attached Homes

A detailed database of these properties was prepared, but is not included as a part of this summary report. The database indicates that there are 551 parcels, all of which are detached homes. From January through October of this year, there were 44 sales, representing 8% of the parcels.

The comparison of sale price to assessed value indicates that the sale prices range from 2.6% below to 289.4% above assessed value. The average sale price was \$302,592 which was 7.4% above the average assessed value of \$281,799. Of the 44 sales, the indications are allocated as follows:

Above Assessed Value:	0-5%	-	15
	5.1-10%	-	9
	10.1-20%	-	10
	Over 20%	-	3
Equal to Assessed Value:		-	4
Below Assessed Value:	0-5%	-	<u>3</u>
			44

In summary, this data indicates that the assessed values on a mass basis are reasonable and supportable.

Apartments

Two of the APN's are improved with apartments. This is one apartment complex which is described as follows:

La Terraza: 8-year old, 402-unit complex with 144 @ 1-bedroom 1-bath, 144 @ 2-bedrooms 2-baths, and 114 @ 3-bedrooms 2-baths; current monthly rents are \$780 to \$855 for the 1-bedroom units, \$960 to \$1,040 for the 2-bedroom units and \$1,200 to \$1,290 for the 3-bedroom units; this is an annual total of ±\$4,844,000 or an average of \$1,004/mo./unit; current occupancy is 97%; the property sold in 11/91 at a price of \$26,500,000; average rents at that time were ±\$870/mo./unit and the occupancy was 90%; current assessed value is \$27,478,762.

Three recent sales of comparable apartment properties in the nearby area, but outside of the CFD, have been considered and are tabulated as follows:

No.	Location	Sale Date	Age	No. Units	Unit Mix	Avg Mo'ly Rent/Unit	Price	Price/Unit	GRM
1	18638-18840 Camino Cantilena, San Diego	12/96	5	338	112 @ 1/1 208 @ 2/2 18 @ 2/2½	\$915	\$31,692,000	\$93,763	8.54
2	15909 Avenida Venusto, San Diego	12/96	9	330	186 @ 1/1 88 @ 2/1 56 @ 2/2	\$697	\$23,535,000	\$71,318	8.53
3	15605-15677 Avenida Alcachofa, San Diego	4/96	10	175	87 @ 1/1 88 @ 2/2	\$880	\$15,300,000	\$87,428	8.28

* GRM is gross rent multiplier or sale price divided by annual gross rental income

ANALYSIS OF RANCHO BERNARDO DEVELOPED RESIDENTIAL, Continuing

As the sales data indicates, the price per unit is heavily influenced by the rental income, or the average monthly rent per unit. In comparison to the subject property, these three sales have an inferior unit mix, lacking any 3-bedroom units. This results in a lower rent potential, as indicated by the average monthly rents of \$697 to \$915 per unit for the sales and \pm \$1,000 for the subject. Thus, the indications on price per unit would tend to be a lower limit for the subject.

On the basis of the GRM or gross rent multiplier, the sales indicate the close range from approximately 8.3 to 8.5.

Thus, supportable but conservative indications for the subject are calculated as follows:

$$\begin{aligned} 402 \text{ units @ } \$90,000\text{-}95,000/\text{unit} &= \$36,180,000 \text{ to } \$38,190,000 \\ \$4,844,000 \times 8.0 \text{ to } 8.5 &= \$38,752,000 \text{ to } \$41,174,000 \end{aligned}$$

These indications are substantially higher than the current assessed value of \$27,478,762. Thus, the assessed value is concluded to be reasonable and supportable.

ANALYSIS OF PENASQUITOS EAST DEVELOPED RESIDENTIAL

The detailed database of these properties indicates that there are 3,034 parcels, which include a mix of detached homes and attached townhomes-condominiums. From January through October of this year, there were 156 sales, representing 5% of the parcels.

The comparison of sale price to assessed value indicates that the sale prices range from 22.7% below to 36.4% above assessed value. The average sale price was \$236,219 which was 6.6% above the average assessed value of \$221,632. The sales are more specifically allocated as follows:

Above Assessed Value:	0-5%	-	51
	5.1-10%	-	27
	10.1-20%	-	28
	Over 20%	-	10
Equal to Assessed Value:		-	3
Below Assessed Value:	0-5%	-	22
	5.1-10%	-	6
	10.1-20%	-	7
	Over 20%	-	<u>2</u>
			156

Some of the situations where the sale price was much higher than the assessed value were from new homes where the sale price was much higher than the assessed value which may reflect the condition prior to completion. Most of the cases where the sale price was below the assessed value were on the attached homes. In general, this property type was more negatively affected by the recessionary market of recent years

ANALYSIS OF PENASQUITOS EAST DEVELOPED RESIDENTIAL, Continuing

than were detached homes. However, attached homes comprise less than 20% of the total of the Developed Residential properties in Penasquitos East.

Overall, this data indicates that the assessed values on a mass basis are reasonable and supportable.

ANALYSIS OF CARMEL MOUNTAIN RANCH DEVELOPED RESIDENTIAL

Detached/Attached Homes

The detailed database of these properties indicates that there are 2,327 parcels, which include a mix of detached homes and attached townhomes-condominiums. From January through October of this year, there were 167 sales, representing 7% of the parcels.

The comparison of sale price to assessed value indicates that the sale prices range from 20.7% below to 42.4% above assessed value. The average sale price was \$211,696 which was 4.5% above the average assessed value of \$202,559. The sales are more specifically allocated as follows:

Above Assessed Value:	0-5%	-	41
	5.1-10%	-	40
	10.1-20%	-	22
	Over 20%	-	3
Equal to Assessed Value:		-	21
Below Assessed Value:	0-5%	-	26
	5.1-10%	-	9
	10.1-20%	-	4
	Over 20%	-	<u>1</u>
			167

Both the detached and attached property types indicated cases of sale prices being above and below the assessed values. While this could be more expectable on the attached property type, less than 30% of the dwelling units in the Developed Residential are attached.

In summary, this data indicates that the assessed values on a mass basis are reasonable and supportable.

Apartments

Three of the APN's are improved with apartments. These properties are described as follows:

Reflections (APN 313-041-08): 7-year old, 356-unit complex with 174 @ 1-bedroom 1-bath and 182 @ 2-bedrooms 2-baths; current monthly rents are \$725 to \$900 for the 1-bedroom units and \$920 to \$1,070 for the 2-

bedroom units; this is an annual total of ±\$3,870,000 or an average of \$906/mo./unit; current occupancy is 99%; the property sold in 2/95 at a price of \$24,200,000; average rents at that time were ±\$763/mo./unit; current assessed value is \$24,751,727.

ANALYSIS OF CARMEL MOUNTAIN RANCH DEVELOPED RESIDENTIAL, Continuing

Carmel Terrace (APN 313-041-10): 8-year old, 384-unit complex with ±192 @ 1-bedroom 1-bath and ±192 @ 2-bedroom 2-baths; current monthly rents are \$734 to \$774 for the 1-bedroom units and \$874 to \$974 for the 2-bedroom units; this is an annual total of ±\$3,866,000 or an average of \$839/mo./unit; current occupancy is 96%; current assessed value is \$19,388,853.

Carmel Summit (APN 313-041-11): 7-year old, 246-unit complex with ±98 @ 1-bedroom 1-bath and ±148 @ 2-bedroom 2-baths; current monthly rents are \$855 to \$945 for the 1-bedroom units and \$1,095 to \$1,195 for the 2-bedroom units; this is an annual total of ±\$3,092,000 or an average of \$1,047/mo./unit; current occupancy is 100%; current assessed value is \$19,900,000.

Considering the same factors and sales as discussed for the apartment complex in Rancho Bernardo, the following indications result for these three properties:

Reflections:	356 units @ \$87,000-92,000 = \$30,972,000 to \$32,752,000
	\$3,870,000 x 8.0 to 8.5 = \$30,960,000 to \$32,895,000
Carmel Terrace:	384 units @ \$80,000-85,000 = \$30,720,000 to \$32,640,000
	\$3,866,000 x 8.0 to 8.5 = \$30,928,000 to \$32,861,000
Carmel Summit:	246 units \$ 90,000-95,000 = \$22,140,000 to \$23,370,000
	\$3,092,000 x 8.0 to 8.5 = \$24,736,000 to \$26,282,000

In summary, it is evident that these value indications are substantially above the current assessed values for each property. Thus, it is concluded that the assessed values for these properties are reasonable and supportable.

ANALYSIS OF SABRE SPRINGS DEVELOPED RESIDENTIAL

Detached/Attached Homes

The detailed database of these properties indicates that there are 1,490 parcels, which include a mix of detached homes and attached townhomes-condominiums. From January through October of this year, there were 120 sales, representing 8% of the parcels.

The comparison of sale price to assessed value indicates that the sale prices range from 10.4% below to 264.1% above assessed value. The average sale price was \$202,147 which was 18.1% above the average assessed value of \$171,128. The sales are more specifically allocated as follows:

ANALYSIS OF SABRE SPRINGS DEVELOPED RESIDENTIAL, Continuing

Above Assessed Value:	0-5%	-	27
	5.1-10%	-	22
	10.1-20%	-	9
	Over 20%	-	33
Equal to Assessed Value:		-	5
Below Assessed Value:	0-5%	-	17
	5.1-10%	-	6
	10.1-20%	-	<u>1</u>
			120

There are a number of cases where the sale prices are 100-200% higher than the assessed value, and these appear to be new homes where the assessed value likely reflected only partial construction. It is also noted that about 55-60% of the dwelling units in Sabre Springs (in the CFD) are in the attached property type. However, these units indicate the sale prices being both above and below the assessed values.

In summary, this data indicates that the assessed values on a mass basis are reasonable and supportable.

Apartments

One APN is improved with apartments, and this complex is described as follows:

Ridgewood Apartments: New 192-unit complex with 42 @ 1-bedroom 1-bath and 150 @ 2-bedroom 2-baths; current monthly rents are \$770 to \$830 for the 1-bedroom units and \$950 to \$1,010 for the 2-bedroom units; this is an annual total of ±\$2,167,000 or an average of \$941/mo./unit; the complex was just recently completed and opened last August, and it is already 100% occupied; current assessed value is \$155,044, which likely represents only a very low land base, prior to construction which commenced last January.

Based on prior analyses, the value indications are as follows:

192 units @ \$87,000-92,000 = \$16,704,000 to \$17,664,000
 \$2,167,000 x 8.0 to 8.5 = \$17,336,000 to \$18,419,000

In summary, the assessed value for this apartment complex is extremely below a reasonable and supportable value.

CONCLUSION FOR DEVELOPED RESIDENTIAL

In summary, the total assessed value for the Developed Residential is as follows:

Rancho Bernardo:	Detached/Attached -	\$155,271,156
	Apartments -	\$ 27,478,762
Penasquitos East:	Detached/Attached -	\$672,431,464
Carmel Mountain Ranch:	Detached/Attached -	\$471,355,803
	Apartments -	\$ 64,040,580
Sabre Springs:	Detached/Attached -	\$254,981,279
	Apartments -	<u>\$ 155,044</u>
		\$1,645,714,088

CONCLUSION FOR DEVELOPED RESIDENTIAL, Continuing

The detached homes and attached townhomes or condominiums comprise \$1,564,756,528 or 94% of the total assessed value. Based on the data, the overall average assessed value for the 7,439 detached and attached homes is \$210,345. The overall average sale price from recent sales of 488 of these homes is \$225,523, or 7.2% greater than the average assessed value.

The five apartment complexes comprise \$91,674,386 or 6% of the total assessed value. Based on the foregoing data and analyses, the value for these five properties is at least \$136,700,000, or significantly greater than the total assessed value.

In summary, the data and analyses support that the assessed values for all of the Developed Residential properties are reasonable and supportable on a mass basis.

GENERAL DATA ON OTHER CATEGORIES

As previously discussed, the data on the other categories is provided for general information purposes, since these properties are not currently subject to the special taxes for the CFD. However, the Residential-Under Construction properties have greater relevance since the special taxes for the CFD will be levied on these properties commencing in the next tax year. In addition, the Undeveloped Residential properties will be subject to the special tax when the residential development occurs.

Residential-Under Construction

The detailed database of these properties indicates that there are a total of 464 parcels or APN's. Of these, 463 parcels comprise portions of 8 different tracts of new homes or condominiums, and one parcel is a vacant custom residential lot.

The following indicates the allocation of these parcels into the various new tracts which are under construction:

- 41 @ The Bluffs and The Summit, two adjacent tracts of homes; The Bluffs will have 114 homes, with 3 currently complete and 19 under construction; The Summit will have 86 homes with 3 currently under construction.
- 54 @ Monterey; to be 146 homes, with 48 currently complete and 75 under construction.
- 55 @ Belle Fleur; to be 110 homes, with 14 complete and 50 under construction.
- 3 @ Hillsborough; these are the last three lots for build-out of the tract of 202 homes.

GENERAL DATA ON OTHER CATEGORIES, Continuing

34 @ RidgePointe and Ridgeview, two adjacent tracts of new homes under construction; there will be a total of 110 homes in the two tracts, with the models complete and 20-25% currently under construction.

277 @ Apartment complex under construction

464

As previously noted, current assessed values on these parcels were not available.

Undeveloped Residential

The detailed database of these properties indicates that there are 198 parcels which appear to fit into this category. The parcels range from remaining portions of the tracts where new homes are under construction to land in a raw condition, but per the appropriate Community Plan it appears to be planned for residential. The total assessed value for the Undeveloped Residential is indicated to be \$20,443,058.

Developed Non-Residential

These properties include various retail centers, restaurants, hotel, office and industrial buildings, hospital and the golf course. The total assessed value for the Developed Non-Residential is \$200,247,582.

Undeveloped Non-Residential

These properties include vacant land which appears to be planned for some type of commercial or industrial development, based on physical inspection or review of the appropriate Community Plan. The total assessed value for the Undeveloped Non-Residential is \$6,545,443.

Open Space-Miscellaneous

The detailed database of these properties is under the Addenda tab, following the Undeveloped Non-Residential database, and is labeled as Open Space-Miscellaneous, pages 1 through 3. Most of these parcels have no assessed value, many of which are in public ownership. Other parcels consist of open space land owned by private parties, and open space or greenbelt land which is part of a residential neighborhood and owned by the homeowners association.

The total assessed value for the Open Space-Miscellaneous category is \$4,895,952.

ADDENDA

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**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, Greater North Orange County Association of
Realtors

LICENSES

Licensed by the State of California as a Certified General
Real Estate Appraiser; OREA Identification No. AG013311; valid
through September 22, 2000.

EDUCATION

B.A. Economics & Business, Westmont College, Santa Barbara,
California (1976)

Appraisal Institute Courses:

Basic Appraisal Principles, Methods and Techniques

Capitalization Theory and Techniques

Urban Properties

Litigation Valuation

Standards of Professional 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 Boards of Orange and Los
Angeles Counties.

QUALIFICATIONS, PAGE 2

TYPES OF PROPERTY APPRAISED

Residential: vacant lots, acreage and subdivisions; single family residences, condominiums, townhomes and apartment complexes.

Commercial: vacant lots and acreage; office buildings, retail stores, shopping centers, restaurants, hotels and motels.

Industrial: vacant lots and acreage; warehouses, manufacturing buildings, research and development 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:

Andrews Petroleum Services	MCP Foods
British Pacific Properties	Merrill Lynch Relocation
BSI Consultants	Pacific Scientific
Crown Central Petroleum	Penhall International
Eastman Kodak Company	Pic 'N Save Stores
Firestone Building Materials	Sargent-Fletcher Company
Foodmaker Realty Corp.	Shell-Western E&P
Greyhound Lines	Southern Distributors Corp
Holiday Rambler Corp.	Southern California Edison
International Baking Co.	The Home Depot
Johnson Controls	Tooley and Company
Kampgrounds of America	Wastewater Disposal Co.
La Habra Products, Inc.	

Developers:

Brighton Homes
Citation Builders
Davison-Ferguson Investment Developers
D.T. Smith Homes
Irvine Company
Kathryn Thompson Developers
Mark Taylor, Inc.
Mission Viejo Company
Premier Homes
Presley of Southern California
Rockefeller & Associates
Taylor Woodrow Homes
Unocal Land & Development

QUALIFICATIONS, PAGE 3

Law Firms:

Baldikoski, Klotz &
Dragonette
Best, Best & Krieger
Bowie, Arneson, Kadi,
Wiles & Giannone
Bradshaw, John
Bye, Hatcher & Piggott
Callahan, McCune & Willis
Cooksey, Coleman & Howard
Hamilton & Samuels
Horgan, Rosen, Beckham &
Coren
Kent, John
Kirkland & Ellis
Lathan & Watkins
McKee, Charles C.
Mosich, Nicholas J.

Lewin, Robert S.
Nossaman, Guthner, Knox &
Elliott
Oliver, Barr & Vose
Ollestad, Freedman & Taylor
Palmieri, Tyler, Wiener,
Wilhelm & Waldron
Paul, Hastings, Jonofsky &
Walker
Piggott, George B.
Pothier, Rose
Rosenthal & Zimmerman
Rutan & Tucker
Sikora & Price, Inc.
Smith & Politiski
Williams, Gerold G.
Woodruff, Spradlin & Smart

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 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:

El Toro Water District
Federal Deposit Insurance Corporation (FDIC)
Kern County Employees Retirement Association
Metropolitan Water District of So. Calif.
Orange County Water District
Trabuco Canyon Water District
U.S. Postal Service

QUALIFICATIONS, PAGE 4

School Districts:

Banning Unified School District
Capistrano Unified School District
Castaic Union School District
Cypress School District
Fullerton School District
Garden Grove Unified School District
Irvine Unified School District
Lake Elsinore Unified School District
Moreno Valley Unified School District
Newhall School District
Newport-Mesa Unified School District
Placentia-Yorba Linda Unified School District
Poway Unified School District
Rialto Unified School District
Saddleback Community College District
Saddleback Unified School District
Santa Ana Unified School District
Temple City School District

Churches:

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, Fullerton
Good Shepherd Lutheran Home
Long Beach First Church of the Nazarene
Lutheran Church, Missouri Synod
Presbytery of Los Ranchos
St. Mark's Lutheran Church, Hacienda Heights
Vineyard Christian Fellowship

Other:

Biola University
Cedars-Sinai Medical Center
Garden Grove Boys' Club





85248

SECTION I - MATERIALS SUBMITTED

- A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one)
- A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)
 - DATE RECEIVED FROM ISSUER: 2-2-98
 - DATE SENT TO MSRB: 2-2-98
 - AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)
 - DATE RECEIVED FROM ISSUER: _____
 - DATE SENT TO MSRB: _____
- B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached). PLEASE CHECK HERE:
- C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED. PLEASE CHECK HERE (include copy of original Form G-36(OS))

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here:

- A. NAME OF ISSUER: Poway Unified School District STATE: Ca
 DESCRIPTION OF ISSUE: Comb Fac Dist No 1 Ser 1998 DATED DATE: 2/4/98
- B. NAME OF ISSUER: _____ STATE: _____
 DESCRIPTION OF ISSUE: _____ DATED DATE: _____
- C. NAME OF ISSUER: _____ STATE: _____
 DESCRIPTION OF ISSUE: _____ DATED DATE: _____

SECTION III - TRANSACTION INFORMATION

- A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 10-1-23
- B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 1/22/98
- C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 2/4/98
- D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE:
 A separate form (G-36ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

- A. MANAGING UNDERWRITER: Stone & Youngberg LLC SEC REG NUMBER: 8-03149
- B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$: 80,000,000.⁰⁰
- C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): \$ _____
- D. CHECK ALL THAT APPLY
- At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
 - At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
 - This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment, and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
10/1/98	738855BB0	10/1/07	738855BL8	10/1/23	B53
99	BC8	08	BM6		
00	BD6	09	BN4		
01	BE4	10	BP9		
02	BF1	11	BQ7		
03	BG9	12	BT1		
04	BH7				
05	BJ3	10/1/14	BR5		
06	BK0	10/1/17	BU8		

B IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9". CHECK HERE AND LIST THEM BELOW
 (Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED _____

State the reason why such securities have not been assigned a "CUSIP-9" _____

C IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE:

State the reason why such securities are ineligible for CUSIP number assignment _____

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

RECEIVED
 FEB -3 1998
 "M.S.R.B"

ON BEHALF OF THE MANAGING UNDERWRITER IDENTIFIED IN SECTION I

SIGNATURE _____

NAME _____