CAPISTRANO UNIFIED SCHOOL DISTRICT 33122 Valle Road San Juan Capistrano, CA 92675

BOARD OF TRUSTEES Special Meeting

March 7, 2014 Open Session 7:00 p.m.

AGENDA

OPEN SESSION AT 7:00 P.M.

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ADOPTION OF THE AGENDA - ROLL CALL

BOARD AND SUPERINTENDENT COMMENTS

DISCUSSION/ACTION

1. ANALYSIS OF 2006 REFINANCING OF COMMUNITY FACILITIES DISCUSSION/
DISTRICT 90-2 (TALEGA) BOND ISSUED IN 2001 AND 2002:

The Board of Trustees will be provided with a report on Community Facilities District

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90-2 (Talega) describing the results of the bond refinancing. An analysis from **EXHIBIT 1** the District's financial advisor, Government Financial Strategies, is provided.

CUSD Strategic Plan Pillar 5: Effective Operations

Contact: Clark Hampton, Deputy Superintendent, Business and Support Services

Staff Recommendation

It is recommended the Board President recognize Clark Hampton, Deputy Superintendent, Business and Support Services, to present information and introduce Ms. Lori Raineri of Government Financial Strategies, Incorporated, who will present the report and answer questions. This is an action item to provide the Board with the broadest flexibility in addressing the report.

Following discussion, it is recommended the Board of Trustees provide direction to staff.

Motion by		Seconded by	
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PUBLIC COMMENTS TO AGENDA ITEM ONLY

ADJOURNMENT

Motion by	Seconded by
<i></i>	<i>y</i>

THE NEXT REGULAR MEETING OF THE BOARD OF TRUSTEES IS WEDNESDAY, MARCH 12, 2014, 7:00 P.M. AT THE CAPISTRANO UNIFIED SCHOOL DISTRICT OFFICE BOARD ROOM, 33122 VALLE ROAD, SAN JUAN CAPISTRANO, CALIFORNIA

For information regarding Capistrano Unified School District, please visit our website: www.capousd.org

RECORDING OF SCHOOL BOARD MEETINGS

In accordance with Board Policy 9324, Board Minutes, all Regular School Board Meetings will be audio recorded

INSTRUCTIONS FOR PRESENTATIONS TO THE BOARD BY PARENTS AND CITIZENS PRESENT AT THIS MEETING

We are pleased you can be with us at this meeting, and we hope you will return often. Your visit assures us of continuing community interest in our schools.

The members of the Board of Trustees of this District are locally elected state officials, who serve four-year terms of office, and who are responsible for the educational program of our community from grades kindergarten through twelve. They are required to conduct programs of the schools in accordance with the State of California Constitution, the State Education Code, and other laws relating to schools enacted by the Legislature, and policies and procedures which this Board adopts.

The Board is a policy-making body whose actions are guided by the school district's Mission and Goals. Administration of the District is delegated to a professional administrative staff headed by the Superintendent.

The agenda and its extensive background material are studied by each member of the Board for at least two days preceding the meeting. Board Members can call the administrative staff for clarification on any item, and many of the items on the agenda were discussed by the Board during previous meetings. These procedures enable the Board to act more effectively on agenda items than would otherwise be possible.

WHAT TO DO IF YOU WISH TO ADDRESS THE BOARD OF TRUSTEES

ITEMS ON THE AGENDA. Any person may address the Board concerning any item on the agenda and may, at the discretion of the Board, be granted three (3) minutes to make a presentation to the Board at the time a specific item is under discussion. However, the time assigned for individual presentations could be fewer than three (3) minutes depending upon the total number of speakers who wish to address a specific agenda topic. Prior to the opening of the meeting, a Request to Address the Board card (located in the foyer) should be completed and submitted to the Secretary of the Board. The total time devoted to presentations to the Board shall not exceed twenty (20) minutes, unless additional time is granted by the Board. All presentations shall be heard by the Board prior to the formal discussion of the agenda topic under consideration. Once an agenda item has been opened for public comment, no additional "Request to Address the Board of Trustees" cards shall be accepted for that topic.

ORAL COMMUNICATIONS (Non-Agenda Items). Citizens may address the Board on any item not appearing on the agenda. Individual presentations are limited to three (3) minutes per individual, with twenty (20) minutes in total being devoted for this purpose, but could be less if there are a large number of Oral Communication speakers. Legally, the Board may not take action on items raised by speakers under Oral Communications. However, at its discretion, the Board may refer items to the administration for follow-up or place topics on a future Board agenda.

PUBLIC HEARINGS. Anytime the Board schedules a separate public hearing on any given topic, it shall not hear speakers on that topic before the public hearing, except as to the scheduling of the hearing, nor shall it hear speakers after the hearing, except as to changes in the policy or recommended actions which are directed at the time of the hearing.

CLOSED SESSION. In accordance with Education Code §35146 and Government Code §54957, the Board may recess to Closed Session to discuss personnel matters which they consider inadvisable to take up in a public meeting.

REASONABLE ACCOMMODATION

In order to help ensure participation in the meeting of disabled individuals, appropriate disability-related accommodations or modifications shall be provided by the Board, upon request, in accordance with the Americans with Disabilities Act (ADA). Persons with a disability who require a disability-related accommodation or modification, including auxiliary aids and services in order to participate in a Board meeting, shall contact the Superintendent or designee in writing by noon on the Friday before the scheduled meeting. Such notification shall provide school district personnel time to make reasonable arrangements to assure accessibility to the meeting.

CAPISTRANO UNIFIED SCHOOL DISTRICT San Juan Capistrano, California

March 7, 2014

REPORT ON COMMUNITY FACILITIES DISTRICT 90-2 (TALEGA) 2006 BOND REFUNDING

BACKGROUND INFORMATION

In 2006, the Capistrano Unified School District refinanced two previous bond issues under Community Facilities District (CFD) 90-2 with a single refunding bond. The results of that refinancing were a savings in interest costs of just under \$5 million. To authorize the 2006 refinancing, on April 24 2006, the Board passed Resolution 0506-73 titled "Resolution of the Board of Trustees of the Capistrano Unified School District Acting as the Legislative Body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Authorizing the Issuance of its Series 2006 Special Tax Refunding Bonds, and Approving Certain Documents and Taking Certain Other Actions in Connection Therewith". In addition to authorizing the issuance of the refunding bonds, the resolution also reduced the total bond authorization by \$9,345,000 and shortened the term of the CFD by five years.

CURRENT CONSIDERATIONS

In late 2013, community members in the Talega CFD asked about a clause within Resolution 0506-73; specifically in Section 3 which reads:

"In satisfaction of the requirements contained in Section 53364.2 of the Act, the Board hereby determines that any savings achieved through the issuance of the Bonds shall be used to reduce special taxes of the District, and such reductions shall be made in accordance with the Act."

Community members indicated that subsequent to this resolution, their levy was not reduced and, referencing the section of the resolution quoted above, asked why their levy was not reduced.

After meeting with community members to hear their concerns, staff asked the District's financial advisor, Government Financial Strategies, Incorporated to review the 2006 CFD refinancing to determine if the requirements indicated in the resolution were or were not carried out.

The attached memos from Government Financial Strategies are the results of their research on the 2006 refinancing and an analysis for a potential 2014-2015 reduction in the levy of CFD 90-2 (Talega), within the requirements indicated in the 2006 refinancing.

FINANCIAL IMPLICATIONS

There are no financial impacts on the District's general fund. There is a potential financial impact on funds available for facilities in CFD 90-2 as indicated in the analysis based on a potential reduction in the levy for 2014-2015.

EXHIBIT 1

Resolution No. 1213-27, Authorizing the Issuance of Its 2012 General Obligation Refunding Bonds November 14, 2012 Page 2

STAFF RECOMMENDATION

It is recommended the Board President recognize Clark Hampton, Deputy Superintendent, Business and Support Services, to present information and to introduce Ms. Lori Raineri of Government Financial Strategies, Incorporated, who will present the report and answer questions. This is an action item to provide the Board with the broadest flexibility in addressing the report.

Following Discussion, it is recommended the Board of Trustees provide direction to staff.



MEMORANDUM

To: Clark Hampton

From: Lori Raineri

Keith Weaver

Date: February 27, 2014

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002

Regarding Satisfaction of the Tax Reduction Requirement

Introduction

In 1990, Community Facilities District 90-2 (Talega) was formed with a per square foot tax rate to "be collected at or before the time a building permit application for any Taxable Property is submitted" and to issue \$10,000,000 of bonds to be repaid by these taxes. The tax rates for 1990 were \$1.65 per square foot for residential property and \$0.30 for commercial/industrial property.

In 1999, this CFD was amended to accomplish the following: replace the original rate and method of apportionment, expand and clarify the allowable facilities and expenditures, change the boundaries of the CFD, increase the allowable bonds to \$50,000,000 and increase the Gann appropriations limit.²

The Rate and Method of Apportionment was changed from a one-time payment prior to development of a property, to an annual payment. In 1999-00, the tax rates were \$0.3294 per square foot for residential property and "taxable senior housing property" and \$0.0599 per square foot for non-residential property. There's also a "Backup Special Tax" and taxes became collectible on the regular property tax bill. The new RMA set forth the final year of taxation as 2041-42.3

The District first issued bonds for CFD 90-2 (Talega) in 2001, and then again in 2002. These bonds were refinanced in 2006, as shown in the table below, which would have left \$9,345,00 in remaining bonding authority.

Community Facilities District 90-2 (Talega)						
Series	Bond Structure	New Money <u>Issuance</u>	Refunding <u>Issuance</u>	Remaining Authorization \$50,000,000	Total Net Debt Service	
2001	CIBs	\$23,050,000	\$0	\$26,950,000	\$52,609,979	
2002	CIBs	\$17,605,000	\$0	\$9.345.000	\$42,521,519	
2006	CIBs	\$0	\$44,980,000	\$9,345,000	\$81,094,992	
	=	\$40,655,000	\$44,980,000			

¹ Please see attached Ordinance 90-2-1.

² Please see attached Amendment No. 1 to Notice of Special Tax Lien for Community Facilities District No. 90-2

³ Please see Amended and Restated Rate and Method of Apportionment included in document referenced in footnote 2.

February 27, 2014

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002

Regarding Satisfaction of the Tax Reduction Requirement

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Recently, some concerned citizens brought to your attention Resolution No. 0506-73, titled "Resolution of the Board of Trustees of the Capistrano Unified School District Acting as the Legislative Body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Authorizing the Issuance of its Series 2006 Special Tax Refunding Bonds, and Approving Certain Documents and Taking Certain Other Actions in Connection Therewith", which was adopted on April 24, 2006. 4

Specifically, a question was asked about the following paragraph, which is part of Section 3 of this resolution:

In satisfaction of the requirements contained in Section 53364.2 of the Act, the Board hereby determines that any savings achieved through the issuance of the Bonds shall be used to reduce special taxes of the District, and such reductions shall be made in accordance with the Act.

The citizens were wondering whether this directive had been accomplished. The purpose of this memorandum is to provide an answer to this question.⁵

Analysis

Let's start by looking at the statute referenced. At that time, the following requirement was part of the Mello-Roos Community Facilities Act:

53364.2. Any savings achieved through the issuance of refunding bonds shall be used by the legislative body to reduce the special taxes which were levied to retire the bonds being refunded. At the time the legislative body makes a determination to issue the refunding bonds, it shall determine and cause to be made any reductions in the annual tax levy in the district, which reductions shall be made on a pro rata basis.⁶

The District received a legal opinion on the issuance of the 2006 bonds, which stated, in part:

The Bonds have been duly and validly authorized by the District and are legal, valid and binding \dots ⁷

This legal opinion provides specific assurance that the District complied with all legal requirements, including Government Code 53364.2, at the time of the 2006 bond issuance.

We could stop there and simply rely on the legal opinion, but let's go a little deeper.

Resolution No. 0506-73 was the action taken by the legislative body to authorize the refunding bonds, and at the same time, it clearly determined that "any savings achieved through the issuance of the Bonds shall be used to reduce special taxes". Because of the "at the time" requirement of the statute, we look to the Resolution No. 0506-73 for how the reductions in the tax levy were caused at the same time, as required by Government Code 53364.2.

Section 6 of Resolution No. 0506-73 is comprised of the following paragraph:

⁴ Please see attached.

⁵ We understand that for someone unfamiliar with municipal bond documents, looking at Section 3 of Resolution 0506-73, might expect a simple answer. Our analysis required a review of more than 1.700 pages of documents, development of a hypothesis and mathematical testing of that hypothesis.

⁶ Ás of January 1, 2008, this statute was substantially amended to replace the prior language. Please see attached for the current statute.

Please see attached opinion letter from Stradling, Yocca, Carlson & Rauth, dated July 8, 2006.

February 27, 2014

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002

Regarding Satisfaction of the Tax Reduction Requirement

Page 3



SECTION 6. The District bond authorization is hereby reduced by \$9,345,000 and the final term of the District special tax levy is shortened from fiscal year 2041-42 to fiscal year 2036-37, provided that, notwithstanding the foregoing, the District special tax term shall not be reduced, and the District special tax shall continue to be levied, for so long as the District special tax is needed to pay debt service on bonds of the District.

The first two provisions of this section, the cancellation of the remaining bond authorization and shortening the tax term are very unusual clauses in a resolution authorizing the issuance of bonds. We developed a hypothesis to explain this, and then tested this hypothesis mathematically.

Our hypothesis is as follows.

The District saved just under \$5,000,000 in total debt service from refinancing the remaining outstanding bonds from the 2001 and 2002 series. Thus, to satisfy Government Code 53364.2, this savings would need to be used "to reduce the special taxes which were levied to retire the bonds being refunded." The statutory language was a bit nonsensical, as taxes are levied annually, and it isn't possible to reduce taxes "which were levied", that is, levied in the past. It also doesn't make sense that one could reduce taxes on the bonds "being refunded", in the future, because the bonds being refunded cease to require any tax lew upon the refunding. Put another way, 100% of the levy for the refunded bonds stops when such bonds are refunded (which results in their being defeased or repaid). The only reduction that can be done is to future

When considering future levies, because the debt service for the 2006 bonds was lower than the combined debt service on the 2001 and 2002 bonds, it might seem like the tax levies could have been lowered beginning in 2006-07. Of note, the 2001 bonds required 110% debt service coverage in order to issue additional bonds, and the 2002 bonds required 100%.8

The 2006 bonds were insured to a AAA credit rating, and from the refinancing alone, moved the coverage ratio from approximately 111% to 118%. This seems to be a significant factor in the rating upgrade from unrated to AAA-insured. The 2001 and 2002 bonds had no underlying rating. When the bond insurer, AMBAC, was downgraded (as all municipal bond insurers were as a result of fall-out from the 2008 financial crisis), Standard & Poor's withdrew the rating on the bonds, and Moody's downgraded the bonds to Caa2.

It is reasonable to conclude that the refinancing savings were due, at least in part, to the increase in credit quality from obtaining the bond insurance, and therefore, to make the refinancing viable, the higher coverage ratio needed to be maintained, which meant the tax levies could not be planned to be reduced during the period that the 2006 bonds were scheduled to be paid.

Please note that at the time the 2006 bonds were issued, there were two potential impairments to repayment that were within the District's control. These were the levying of the tax in the future to repay the 2006 bonds and the potential issuance of additional bonds with a parity claim on the tax.

The Bond Indenture for the 2006 Bonds⁹ included covenants that addressed these potential impairments. With respect to the levying of taxes:

Lew of Special Tax. The District has levied the Special Tax since Fiscal Year 1999-2000 and in each Fiscal Year thereafter and, so long as any Bonds issued under this Indenture

9 Bond Indenture for \$44,980,000 Community Facilities District No. 90-2 of the Capistrano Unified School District

(Talega) Series 2006 Special Tax Refunding Bonds, dated June 1, 2006.

⁸ This is odd, given the transitive property of equality: if A = B and B = C, then A = C.

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002

Regarding Satisfaction of the Tax Reduction Requirement

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are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available by the District for such purpose to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

With respect to additional bonds,

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in this Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, except bonds refunding the Bonds. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

Our hypothesis can be summarized as follows:

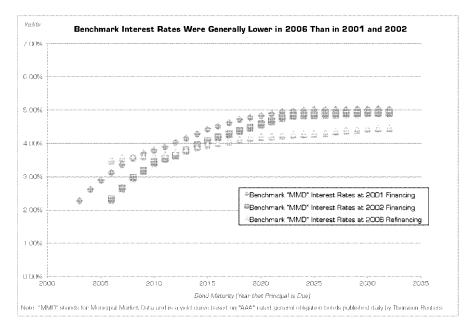
- given that the only possible levies that could be reduced were the future levies and,
- given that an increase in credit quality (from unrated to "AAA-insured") was significant in achieving compelling refinancing savings,
- that to achieve the "AAA-insured" credit rating, there had to be both the increase in debt service coverage and the retention of future potential to levy taxes at the maximum allowable rates in the RMA,
- that the tax levy reductions had to be "caused" at the time of the refunding,
- that the tax levy reductions had to be made pro rata which seems almost impossible to do in advance given the RMA (e.g. note the "backup special tax"),
- that a method was needed by which the savings resulting from the refunding could be converted into pro rata tax levy reductions without impairing the credit quality of the 2006 bonds,
- and that the method utilized was to reduce the authority for additional future taxation, specifically, following the repayment of the 2006 bonds AND eliminating the possibility of additional bonds,
- the reduction in authority for additional future taxation was accomplished by shortening the tax term to be commensurate with the final maturity of the 2006 bonds AND cancelling the remaining bond authority of \$9,345,000.

To test this hypothesis, let's examine market conditions during the time of each bond sale, actual bond yields (and spreads to a benchmark), and compare the yields achieved for the 2001 10 and 2002¹¹ series, which were both unrated, with the 2006¹² refunding bonds, which were rated "AAA insured".

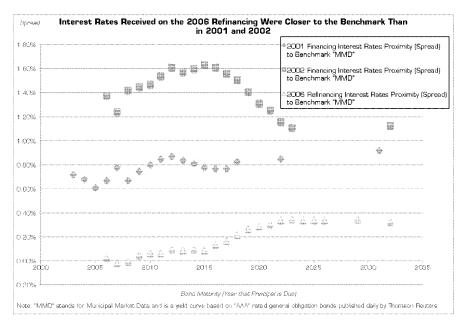
The chart below shows that for almost all maturities, benchmark interest rates were lower in 2002 than 2001, and for most maturities, lower in 2006 than in either 2001 and 2002. Therefore, in general, there was a more appealing bond market in 2006, from a borrowing perspective, and presumably, the source of the desire to take advantage of these lower rates by refunding.

Official Statement for 2001 \$23,050,000 Community Facilities District 90-2 (Talega) special tax bonds
 Official Statement for 2002 \$17,605,000 Community Facilities District 90-2 (Talega) special tax bonds
 Official Statement for 2002 \$17,605,000 Community Facilities District 90-2 (Talega) special tax bonds

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Furthermore, the spread, or proximity to the benchmark, of the yields on the CFD 90-2 bonds increased between 2001 and 2002 as can be seen in the chart below. Generally speaking, spreads to the benchmark rate reflect the extra compensation investors require to accept additional risk. As the chart below demonstrates, the 2006 refunding bonds were sold at spreads that were much more narrow, and reflected the improved credit quality.

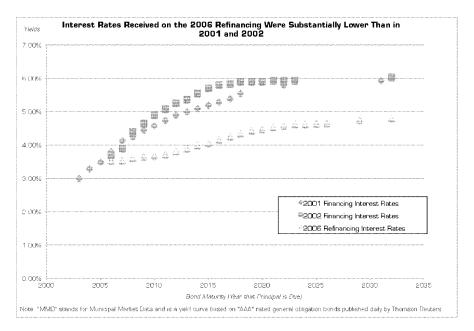


The chart below shows this same conclusion by looking at the actual bond yields, where the CFD's outstanding debt was transformed to lower yields through the refinancing (and also a flatter yield curve).

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002 Regarding Satisfaction of the Tax Reduction Requirement

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When the 2002 bonds were issued, it was projected that debt service coverage in 2006-07 would be $130\%^{13}$. In fact, when the 2006 refunding bonds were issued which lowered debt service, the debt service coverage ratio for 2005-06 was shown as $0.96\%^{14}$, and projected to be 118% in 2006-07. Lower market interest rates offered an opportunity for savings; the improvement in credit quality enhanced those savings, significantly, by approximately 0.50% - 1.10% (the market movement accounted for approximately 0.15% - 0.50%, and combined with the greater credit quality, total improvement was approximately 1.00% - 1.25%).

The tables below show, by a simple measurement, the improvement in debt service coverage from the replacement of the 2001 and 2002 bonds with lower yield, higher credit quality bonds. The tables below show how the coverage ratios improved from 111% to 118%.

which included only developed property (based on building permits).

Official Statement for 2002 \$17,605,000 Community Facilities District 90-2 (Talega) special tax bonds, Page 31, which included taxes on both developed ("developed and near term property") and undeveloped property.
 Official Statement for 2006 \$44,980,000 Community Facilities District 90-2 (Talega) special tax bonds, Page 21,



CFD 90-2 (Talega) 2006 Debt Service Coverage Prior to Refinancing *Projected Combined Prior Coverage Ratio* Coverage Ratio*	_	a) 2006 Debt Service (Projected		
· · · · · · · · · · · · · · · · · · ·			Debt Service After	Coverage Ratio
Year Ending Special Taxes Debt Service Prior to Refinancing	Year Ending	Special Taxes	Series 2006 Refi*	After Refinancing
Sep 1, 2006 \$2,304,702 \$2,465,574 93%	Sep 1, 2006	\$2,304,702	\$2,395,089	96%
Sep 1, 2007 \$2,796,820 \$2,510,664 111%	Sep 1, 2007	\$2,796,820	\$2,369,564	118%
Sep 1, 2008 \$2,852,757 \$2,563,316 111%	Sep 1, 2008	\$2,852,757	\$2,418,764	118%
Sep 1, 2009 \$2,909,812 \$2,613,116 111%	Sep 1, 2009	\$2,909,812	\$2,465,364	118%
Sep 1, 2010 \$2,968,008 \$2,664,726 111%	Sep 1, 2010	\$2,968,008	\$2,514,364	118%
Sep 1, 2011 \$3,027,368 \$2,717,779 111%	Sep 1, 2011	\$3,027,368	\$2,565,564	118%
Sep 1, 2012 \$3,087,916 \$2,771,779 111%	Sep 1, 2012	\$3,087,916	\$2,618,764	118%
Sep 1, 2013 \$3,149,674 \$2,831,459 111%	Sep 1, 2013	\$3,149,674	\$2,673,764	118%
Sep 1, 2014 \$3,212,668 \$2,886,109 111%	Sep 1, 2014	\$3,212,668	\$2,725,364	118%
Sep 1, 2015 \$3,276,921 \$2,940,371 111%	Sep 1, 2015	\$3,276,921	\$2,773,564	118%
Sep 1, 2016 \$3,342,459 \$3,004,184 111%	Sep 1, 2016	\$3,342,459	\$2,835,851	118%
Sep 1, 2017 \$3,409,309 \$3,061,391 111%	Sep 1, 2017	\$3,409,309	\$2,890,901	118%
Sep 1, 2018 \$3,477,495 \$3,122,051 111%	Sep 1, 2018	\$3,477,495	\$2,946,226	118%
Sep 1, 2019 \$3,547,045 \$3,185,226 111%	Sep 1, 2019	\$3,547,045	\$3,004,914	118%
Sep 1, 2020 \$3,617,985 \$3,250,364 111%	Sep 1, 2020	\$3,617,985	\$3,071,914	118%
Sep 1, 2021 \$3,690,345 \$3,312,756 111%	Sep 1, 2021	\$3,690,345	\$3,128,226	118%
Sep 1, 2022 \$3,764,152 \$3,382,263 111%	Sep 1, 2022	\$3,764,152	\$3,193,646	118%
Sep 1, 2023 \$3,839,435 \$3,447,888 111%	Sep 1, 2023	\$3,839,435	\$3,252,906	118%
Sep 1, 2024 \$3,916,224 \$3,516,550 111%	Sep 1, 2024	\$3,916,224	\$3,319,031	118%
Sep 1, 2025 \$3,994,548 \$3,588,981 111%	Sep 1, 2025	\$3,994,548	\$3,388,181	118%
Sep 1, 2026 \$4,074,439 \$3,660,156 111%	Sep 1, 2026	\$4,074,439	\$3,454,906	118%
Sep 1, 2027 \$4,155,928 \$3,734,481 111%	Sep 1, 2027	\$4,155,928	\$3,528,981	118%
Sep 1, 2028 \$4,239,047 \$3,806,063 111%	Sep 1, 2028	\$4,239,047	\$3,596,419	118%
Sep 1, 2029 \$4,323,828 \$3,884,313 111%	Sep 1, 2029	\$4,323,828	\$3,670,069	118%
Sep 1, 2030 \$4,410,304 \$3,963,044 111%	Sep 1, 2030	\$4,410,304	\$3,739,238	118%
Sep 1, 2031 \$4,498,510 \$4,041,369 111%	Sep 1, 2031	\$4,498,510	\$3,818,694	118%
Sep 1, 2032 \$4,588,480 \$4,123,400 111%	Sep 1, 2032	\$4,588,480	\$3,902,513	118%
Sep 1, 2033 \$0 \$0	Sep 1, 2033	\$0	\$0	
\$96,476,179 \$87,049,371		\$96,476,179	\$82,262,779	

Note: developed property for 2005-06 based on building permits pulled as of 3/1/05. Developed property for 2006-07 based on building permits pulled as of 3/1/06. Net of administrative expenses. Assumes no additional development. Projected special taxes per David Taussig & Associates.

Totalling of special taxes and debt service is only for years shown (beginning 2005-06).

*2005-06 payment includes both refinancing debt service due 9/1/06 and prior bonds debt service due 3/1/06.

We then looked at the savings that resulted from the refunding. What we can see from the table below is that the difference in total remaining debt service owed on the 2001 and 2002 bonds at the time of the 2006 refunding was \$87,049,371 and the total debt service after the 2006 refunding bonds were completed was \$82,262,779, representing a reduction of \$4,786,593. This savings was locked in upon the sale of the 2006 refunding bonds, and is realized every year in terms of the tax levy required for debt service.

	Series 2001	Series 2002	Combined Prior	Debt Service After	Series 2006 Refi
Year Ending	Debt Service	Debt Service	Debt Service	Series 2006 Refi*	Savings
Sep 1, 2006	\$1,410,468	\$1,055,106	\$2,465,574	\$2,395,089	\$70,485
Sep 1, 2007	\$1,436,098	\$1,074,566	\$2,510,664	\$2,369,564	\$141,100
Sep 1, 2008	\$1,465,080	\$1,098,236	\$2,563,316	\$2,418,764	\$144,553
Sep 1, 2009	\$1,497,430	\$1,115,686	\$2,613,116	\$2,465,364	\$147,750
Sep 1, 2010	\$1,527,640	\$1,137,086	\$2,664,726	\$2,514,364	\$150,360
Sep 1, 2011	\$1,555,680	\$1,162,099	\$2,717,779	\$2,565,564	\$152,215
Sep 1, 2012	\$1,586,430	\$1,185,349	\$2,771,779	\$2,618,764	\$153.015
Sep 1, 2013	\$1,619,525	\$1,211,934	\$2,831,459	\$2,673,764	\$157,69
Sep 1, 2014	\$1,649,775	\$1,236,334	\$2,886,109	\$2,725,364	\$160,74
Sep 1, 2015	\$1,682,080	\$1,258,291	\$2,940,371	\$2,773,564	\$166,80
Sep 1, 2016	\$1,716,080	\$1,288,104	\$3,004,184	\$2,835,851	\$168,333
Sep 1, 2017	\$1,751,400	\$1,309,991	\$3,061,391	\$2,890,901	\$170,490
Sep 1, 2018	\$1,787,650	\$1,334,401	\$3,122,051	\$2,946,226	\$175,82
Sep 1, 2019	\$1,824,425	\$1,360,801	\$3,185,226	\$3,004,914	\$180,310
Sep 1, 2020	\$1,861,113	\$1,389,251	\$3,250,364	\$3,071,914	\$178,450
Sep 1, 2021	\$1,898,300	\$1,414,456	\$3,312,756	\$3,128,226	\$184,53
Sep 1, 2022	\$1,935,706	\$1,446,556	\$3,382,263	\$3,193,646	\$188,61
Sep 1, 2023	\$1,973,050	\$1,474,838	\$3,447,888	\$3,252,906	\$194,98
Sep 1, 2024	\$2,012,250	\$1,504,300	\$3,516,550	\$3,319,031	\$197,519
Sep 1, 2025	\$2,055,281	\$1,533,700	\$3,588,981	\$3,388,181	\$200,80
Sep 1, 2026	\$2,096,556	\$1,563,600	\$3,660,156	\$3,454,906	\$205,250
Sep 1, 2027	\$2,135,781	\$1,598,700	\$3,734,481	\$3,528,981	\$205,50
Sep 1, 2028	\$2,177,663	\$1,628,400	\$3,806,063	\$3,596,419	\$209,64
Sep 1, 2029	\$2,221,613	\$1,662,700	\$3,884,313	\$3,670,069	\$214,24
Sep 1, 2030	\$2,267,044	\$1,696,000	\$3,963,044	\$3,739,238	\$223,80
Sep 1, 2031	\$2,313,369	\$1,728,000	\$4,041,369	\$3,818,694	\$222,67
Sep 1, 2032	\$0	\$4,123,400	\$4,123,400	\$3,902,513	\$220,88
Sep 1, 2033	\$0	\$0	\$0	\$0	\$
	\$47,457,485	\$39,591,886	\$87,049,371	\$82,262,779	\$4,786,59

^{*2005-06} payment includes both refinancing debt service due 9/1/06 and prior bonds debt service due 3/1/06. Totalling of debt service is only for years shown (beginning 2005-06)

February 27, 2014

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002 Regarding Satisfaction of the Tax Reduction Requirement

Page 8



The \$9,345,000 in cancelled bond authorization is significantly more than the debt service savings of \$4,786,593 (almost twice as much). If these bonds had remained available for issuance, it is reasonable to conclude that total repayment could be estimated at 1.5 to 2.0^{15} times the original principal, or \$14.0 million to \$18.7 million. Thus, the savings to taxpayers from the cancellation of the bonds would be almost three to four times as much as the savings from the refunding.

We also looked at the savings from eliminating taxation in the five years that the term of taxation was shortened: 2037-38, 2038-39, 2039-40, 2040-41, and 2041-42, when tax rates were scheduled to be at their highest. To provide an estimate of what could have been expected at the time of the issuance of the 2006 bonds, we looked at what the five years of the foregone taxation would have been estimated to total. In issuing the 2006 bonds, the District projected future taxes based on the then current amount of development, and increasing at 2% per year. The table below shows what the annual taxation would have been expected to be for those five years. As can be seen, the tax reduction totals \$26,891,220, which is more than 5 times the savings achieved by the issuance of the 2006 refunding bonds. Of course, eliminating entire years of taxation, the reduction is pro rata, as every taxpayer receives a 100% reduction.

CFD 90-2 (Taleg	ja) Special Tax Savings
As Estimated at	Time of 2006 Refinancing

Year Ending	Savings
Sep 1, 2038	\$ 5 ,167,374
Sep 1, 2039	\$5,270,721
Sep 1, 2040	\$5,376,136
Sep 1, 2041	\$5,483,658
Sep 1, 2042	\$5,593,332
	\$26,891,220

^{*}At time of Series 2006 Refinancing, special taxes were assumed to increase 2% annually with no additional development beyond permits issued as of March 1, 2006 per Official Statement. For years ending September 1, 2038 through September 1, 2042, the assumed increase of 2% annually was extended.

Conclusion

The governing statute required that the District take action at the time of issuance of the 2006 refunding bonds to cause the savings to be returned to taxpayers. The authorizing resolution referenced this requirement, and made two unusual provisions: reducing the remaining bond authorization to \$0 and shortening the term of tax by 5 years.

Both of these actions (together) provided a total reduction in taxation ranging from a low estimate, as described, of \$14 million to a high estimate of close to \$27 million, clearly well in excess of the \$4,786,593 total debt service savings from the 2006 refinancing. Please see table below.

¹⁵ The 2006 refunding bonds had a ratio of total repayment to debt service of 1.8.

February 27, 2014

Re: Analysis of 2006 Refinancing of CFD 90-2 Bonds Issued in 2001 and 2002

Regarding Satisfaction of the Tax Reduction Requirement

Page 9



CFD 90-2 Estima	red taxbayer oa	virigs by various i	ivieasurements	
Series 2006		Low Estimate	High Estimate	Estimated
Refinancing	Bonds	of Debt Service	of Debt Service	Special Tax
<u>Savings</u>	<u>Cancelled</u>	Savings(1)	Savings(2)	Savings(3)
\$4,786,593	\$9,345,000	\$14,017,500	\$18,690,000	\$26,891,220
Ratio of Taxpayer Savings to Debt				
Service Savings	1.95	2.93	3.90	5.62
Notes: (1) Based on bon (2) Based on bon (3) Consistent wit	ds cancelled and	d debt repayment	t ratio of 2.0	

The District was clearly advised by legal counsel that it had complied with all legal requirements. Therefore, we think it is reasonable to conclude the District took steps to fully comply with the applicable statutory requirement of reducing taxes from debt service savings achieved through the 2006 bond refunding.

We are not attorneys, nor were we working with the District at the time. We welcome additional input from you, the community and other members of the District team. We understand that we will have such an opportunity at a special meeting of the School Board on Friday, March 7. We look forward to sharing our evaluation of what occurred in 2006 when the refunding bonds were issued, and hearing further thoughts from you, other District staff and consultants, the School Board and community members.

Please note we reviewed more than 1,700 pages of documents. Because bond documents include many redundancies, we selected documents that we thought would provide the easiest reference to attach to this memorandum.

One final item that we would like to mention is that because the tax levy covenant in the 2006 bonds is a sufficiency requirement, it would be possible for the Board to levy taxes at a lower level in the future. For 2013-14, the debt service coverage ratio is more than it was projected to be when the 2006 bonds were issued, which leaves some room for the annual levy to be reduced below the maximum and still comply with the covenant to levy sufficient taxes to repay the bonds and related expenses of CFD 90-2. Please note, however, that the outstanding 2006 bonds have debt service which increases each year at 2%. We believe the Board could accomplish this by simply levying taxes at a lower level when tax rates are adopted for 2014-15 later this year, so long as the sufficiency test is met and possibly, debt service coverage maintained at expectations. We will provide some additional analysis of the mechanics of this idea in another memorandum.

Please let us know if you have questions or comments.

LR:KW/abm

ORDINANCE NO. 90-2-1

ORDINANCE OF THE BOARD OF TRUSTEES OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) AUTHORIZING THE LEVY OF A SPECIAL TAX WITHIN COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

WHEREAS, the Board of Trustees of the Capistrano Unified School District (the "Board of Trustees") adopted Resolution No. 90-32 stating its intention to form Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) ("Community Facilities District No. 90-2") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the "Act"); and

WHEREAS, the Board of Trustees also adopted Resolution No. 90-33 stating its intention to incur bonded indebtedness in the amount of \$10,000,000 within proposed Community Facilities District No. 90-2 for the purpose of financing the constructing, acquiring, modifying or rehabilitating certain real and other tangible property with an estimated useful life of five years or longer, including certain school and related facilities (including the purchase of land and any design and planning work directly related to such facilities) (the "Facilities"), all as more fully described in Resolution No. 90-32 to serve the area within Community Facilities District No. 90-2; and

WHEREAS, notice was published as required by law relative to the intention of the Board of Trustees to form proposed Community Facilities District No. 90-2 and to incur bonded indebtedness in the amount of \$10,000,000 within the boundaries of proposed Community Facilities District No. 90-2; and

WHEREAS, on May 21, 1990, the Board of Trustees held a noticed public hearing as required by law to determine whether it should proceed with the formation of Community Facilities District No. 90-2, issue bonds to pay for the Facilities and authorize the rate and method of apportionment of a special tax to be levied within Community Facilities District No. 90-2 for the purpose of paying for the Facilities, creating or

replenishing any necessary reserve funds, paying the annual costs associated with the bonds proposed to be issued to finance the Facilities, including, but not limited to, the principal and interest on the bonds, and paying any incidental expenses of the District as set forth in the Act and Resolution No. 90-32; and

WHEREAS, at said hearing all persons desiring to be heard on all matters pertaining to the formation of Community Facilities District No. 90-2, the levy of a special tax and the issuance of bonds to pay for a portion of the Facilities were heard and a full and fair hearing was held; and

WHEREAS, on May 21, 1990, the Board of Trustees adopted Resolution No. 90-50 which established Community Facilities District No. 90-2, authorized the levy of a special tax within Community Facilities District No. 90-2 and called an election within Community Facilities District No. 90-2 for June 19, 1990 on the proposition of incurring bonded indebtedness and levying a special tax; and

WHEREAS, on May 21, 1990, the Board of Trustees also adopted Resolution No. 90-51 which determined the necessity to incur bonded indebtedness in the amount of \$10,000,000 within Community Facilities District No. 90-2 and called an election within Community Facilities District No. 90-2 for June 19, 1990, on the proposition of incurring bonded indebtedness and levying a special tax; and

WHEREAS, on June 19, 1990, an election was held within Community Facilities District No. 90-2 at which the sole qualified elector approved by more than a two-thirds vote the proposition of incurring bonded indebtedness of \$10,000,000 and levying a special tax as set forth in Resolution No. 90-50; and

WHEREAS, on July 2, 1990, the Board of Trustees adopted Resolution No. 90-__ which certified the results of the June 19, 1990 election conducted by the Clerk of the Board of Trustees, which results showed that more than two-thirds of the votes cast were in favor of the proposition to incur bonded indebtedness and levy the special tax; and

NOW, THEREFORE, THE BOARD OF TRUSTEES OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 90-2 DOES ORDAIN AS FOLLOWS:

Section 1. The above recitals are all true and correct.

Section 2. By the passage of this Ordinance, the Board of Trustees authorizes the levy of a special tax at the maximum rate and in accordance with the formula set forth in Exhibit A to Resolution No. 90-50 which for reference purposes is attached hereto as Exhibit 1 hereto and incorporated by reference.

Section 3. The Board of Trustees is hereby further authorized to determine in each subsequent fiscal year, by resolution, not later than the date of its last meeting in July of each tax year, or such later date as is permitted by law, the specific special tax to be levied on each parcel of land in Community Facilities District No. 90-2. The special tax to be levied shall not exceed the maximum rates set forth in Exhibit 1 hereto, but the special tax may be levied at a lower rate.

Section 4. Properties or entities of the state. federal or other local governments shall be exempt from the above-referenced and approved special tax except as otherwise provided in Section 53317.3 of the Act.

Section 5. All of the collections of the special tax shall be used only as provided for in the Act and Resolution No. 90-32. The special tax shall be levied only so long as needed to accomplish the purposes described in Resolution No. 90-32.

Section 6. Pursuant to Section 53340.2 of the Government Code, the Facilities Funding Administration is designated as the department of the Capistrano Unified School District responsible for preparing the current roll of special tax levy obligations by assessor's parcel number on nonexempt property within Community Facilities District No. 90-2.

Section 7. The special tax shall be collected in the same manner as ordinary ad valorem taxes are collected and shall be subject to the same penalties and the same procedure and sale in cases of delinquency as provided for ad valorem taxes as such procedure may be modified by law or this Board of Trustees from time to time.

Section 8. This Ordinance relating to the levy of the special tax shall take effect immediately upon its final passage and this specific authorization for adoption is pursuant to the provisions of Section 53340 of the Government Code.

Section 9. The President shall sign this Ordinance and the Clerk of the Board of Trustees shall attest to the President's signature and then cause the same to be published within fifteen (15) days after its passage at least once in the Daily Sun Post, a newspaper of general circulation published and circulated in the District.

ADOPTED, SIGNED AND APPROVED this 2nd day of July

BOARD OF TRUSTEES OF THE

CAPISTRANO UNIFIED SCHOOL DISTRICT

President

ATTEST:

1990.

Marlin MDA

Trustees

STATE OF CALIFORNIA)

COUNTY OF ORANGE)

Capistrano Unified School District do hereby certify that the foregoing Ordinance was duly adopted by the Board of Trustees of said County at a meeting of said Board held on the 2nd day of July , 1990, and that it was so adopted by the following vote:

AYES:

Trustees Demsey, Draper, Haseman, Gude, Kopp and Westberg

NOES:

None

ABSTAIN:

None

ABSENT:

Trustee Kochendorfer

Clerk of the Board of Trustees of the Capistrano Unified School

District

STATE	OF	CALIFORNIA)	
)	55.
COUNTY	OF	'ORANGE)	

I, Marlene Draper , Clerk of the Board of Trustees of the Capistrano Unified School District, do hereby certify that the above and foregoing is a full, true and correct copy of Ordinance No. 90-2-1 of said Board, and that the same has not been amended or repealed.

Dated: <u>July 2</u>, 1990

Clerk of the Board of Trustees of the Capistrano Unified School

District

EXHIBIT "1"

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

FOR COMMUNITY FACILITIES DISTRICT NO. 90-2

OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT

(TALEGA)

A Special Tax shall be levied on and collected from each parcel of Taxable Property as described below. All of the property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. Definitions.

The terms hereinafter set forth have the following meanings:

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

"Board" means the Board of Trustees of the Capistrano Unified School District.

"Consumer Price Index" means the index for the Los Angeles-Anaheim-Riverside Consolidated Metropolitan Statistical Area, published monthly by the U.S. Department of Labor, Bureau of Labor Statistics.

"Facilities" means any improvements or facilities designated by the Board with an estimated useful life of five years or longer which are eligible for financing under the provisions of the Act.

"Land Use Class" means any of the categories listed in Table I of Section C below to which a parcel is assigned consistent with the provisions hereof.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by the Board for each class of Taxable Property.

"Special Tax" means the Special Tax for each Land Use Class determined in accordance with Section C below, that can be levied by the Board.

"Taxable Property" means all Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.

B. Assignment to Land Use Class.

All Taxable Property within CFD No. 90-2 shall be assigned to one of the classes designated in Table I below and shall be subject to tax in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. The applicable Maximum Special Tax shall be determined pursuant to Section C, based on building square footage for parcels assigned to one of the classes designated in Table I below.

The square footage of a residential unit (assessable space, exclusive of garages) shall be determined by reference to the building permit application for such parcel, as submitted to the Environmental Management Agency, County of Orange. The square footage of a commercial/industrial building shall be computed from the gross square footage for the building(s) as reflected in the building plans upon which the building permit application for such parcel was prepared and submitted to the Environment Management Agency, County of Orange.

C. Maximum Special Tax Rate.

The Maximum Special Tax for an Assessor's Parcel classified as Taxable Property shall be determined by reference to Table I and Section D below.

In making the computations set forth in this Section C and in determining the Maximum Special Tax which may be levied in any Calendar Year, on January 1, 1991 and on each January 1 thereafter, the Maximum Special Tax for each class set forth in Table I shall be increased by an amount equal to the annual percentage change in the Consumer Price Index as of each January 1 or 5.0%, whichever is greater, of the amount in effect for the previous Calendar Year.

TABLE 1

MAXIMUM SPECIAL TAXES ON TAXABLE PROPERTY OF COMMUNITY FACILITIES DISTRICT NO. 90-2

Land Use Class	<u>Description</u>	Tax (Calendar Year 1990
1 .	Residential	\$1.65/sq. ft.
2	Commercial/ Industrial	\$0.30/sq. ft.

D. Method of Apportionment of the Special Tax.

Starting with the date of formation for CFD No. 90-2, the Board shall levy the Maximum Special Tax on each parcel of Taxable Property at the time of application for an initial building permit for such property. The Maximum Special Tax shall only be levied at the time of application for the issuance of an initial building permit.

E. Exemptions.

A Special Tax shall not be imposed on any parcel which is owned by a public agency or a homeowner's association, or religious organization and utilized primarily as a place of worship, or any parcel which is encumbered with public or utility easements making impractical its utilization for other than the purposes set forth in the easement.

F. Manner of Collection.

The special taxes for CFD No. 90-2 will be collected at or before the time a building permit application for any Taxable Property is submitted to the Environmental Management Agency, County of Orange.

\$44,980,000 COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2006 SPECIAL TAX REFUNDING BONDS

CERTIFICATE OF THE CLERK OF THE BOARD OF TRUSTEES BRINGING FORWARD RESOLUTIONS AND ORDINANCE

I hereby certify that the resolutions and the ordinance listed on Exhibit A attached hereto previously adopted by the Board of Trustees of the Capistrano Unified School District, and in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), have not been amended, supplemented, superseded or rescinded since their respective dates of adoption, except to the extent expressly set forth in the resolutions and the ordinance listed on Exhibit A attached hereto.

Dated: June 8, 2006 CAPISTRANO UNIFIED SCHOOL DISTRICT

Its: Clerk of the Roard of Trustee

EXHIBIT A

Resolution No. 90-32, Resolution of Intention to Establish the District adopted April 16, 1990.

Resolution No. 90-33, Resolution of Intention to Incur Bonded Indebtedness adopted April 16, 1990.

Resolution No. 90-50, Resolution Authorizing Levy of Special Tax and Calling an Election adopted May 21, 1990.

Resolution No. 90-51, Resolution Determining the Necessity to Incur Bonded Indebtedness and Calling an Election adopted May 21, 1990.

Resolution No. 90-69, Resolution Declaring the Results of the CFD 90-2 Election adopted July 2, 1990.

Ordinance No. 90-2-1, Ordinance Authorizing the Levy of Special Tax within CFD No. 90 2 adopted July 2, 1990.

Resolution No. 9899-98, Resolution Approving Amendment to Mitigation Agreement adopted March 29, 1999.

Resolution No. 9899-112, Resolution of Consideration to Alter Existing Rate and Method of Apportionment of Special Tax, Facilities and Boundary and Stating its Intention to Increase Authorized Bonded Indebtedness and Incur Such Indebtedness adopted April 26, 1999.

Resolution No. 9899-126, Resolution Calling an Election on Proposition to Alter Existing Rate and Method of Apportionment of Special Tax, Facilities and Boundaries and Authorizing Additional Bonded Indebtedness adopted June 14, 1999.

Resolution No. 0900-127, Resolution of Change of the Existing Special Tax, Facilities and Boundaries, Declaring Results of Special Tax Election and Determining Proposed Levy of Changed Existing Special Tax is Lawfully Authorized adopted June 14, 1999.

PETITION TO THE BOARD OF TRUSTEES
OF THE CAPISTRANO UNIFIED SCHOOL
DISTRICT REQUESTING INSTITUTION OF
PROCEEDINGS FOR ESTABLISHMENT OF A
COMMUNITY FACILITIES DISTRICT
(COMMUNITY FACILITIES DISTRICT NO. 90-2
OF THE CAPISTRANO UNIFIED SCHOOL
DISTRICT (TALEGA))

- 1. The undersigned (the "Owner") is the owner of in excess of ten percent (10%) of the area of land located in part in the unincorporated area of the County of Orange and in part in the incorporated City of San Clemente, California depicted in the map set forth in Exhibit A attached hereto and described in Exhibit B hereto (the "Property").
- 2. The Owner requests that the Board of Trustees of the Capistrano Unified School District (the "Board") institute proceedings to establish a community facilities district to be known as "Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)" (referred to herein as the "District") pursuant to Chapter 2.5 (commencing with Section 53311), Part 1, Division 2, Title 5, of the Government Code of the State of California, commonly known as the "Mello-Roos Community Facilities Act of 1982", to include all of the Property.
- 3. The boundaries of the territory which is proposed for inclusion in the District are shown on Exhibit A and described in Exhibit B hereto.
- 4. The Owner requests that the proposed District be used to finance the construction, purchase, modification, expansion,

improvement or rehabilitation of certain school facilities (and related support facilities) necessary to house elementary, intermediate and high school students generated in the District (including sites and/or structures, landscaping, parking, classrooms, administrative areas, multimedia facilities, furniture and related equipment) both on-site and off-site (the "Facilities") and to finance the incidental expenses to be incurred, including:

- (a) The cost of engineering, planning and designing the Facilities;
- (b) All costs, including costs of the Owner, associated with the creation of the District, the issuance of the bonds and the determination of the amount of special taxes to be levied and costs otherwise incurred in order to carry out the authorized purposes of the District; and
- (c) Any other expenses incidental to the construction, completion and inspection of the Facilities.
- 5. The Owner further requests that the Board authorize the issuance of bonds of the District in an amount not to exceed \$10,000,000, to finance the Facilities and costs described in paragraph 4 above.
- 6. The Owner further requests that, upon the sale of such bonds, the Board, as legislative body of the District, annually levy special taxes on the property within the District for the payment of the aggregate amount of principal of and interest owing on the bonds of the District in each fiscal year and for such services as the Board deems appropriate.

7. The Owner further agrees to advance to the School District the amounts necessary to pay for the costs related to the formation of the District, which amounts will be reimbursed from the proceeds of the sale of the bonds or from other available funds.

Dated: <u>March 21</u>, 1990

ARVIDA/JMB PARTNERS, L.P.-II, a Delaware limited partnership

By: ARVIDA/JMB MANAGERS-II, INC., an Illinois corporation, its general partner

By:

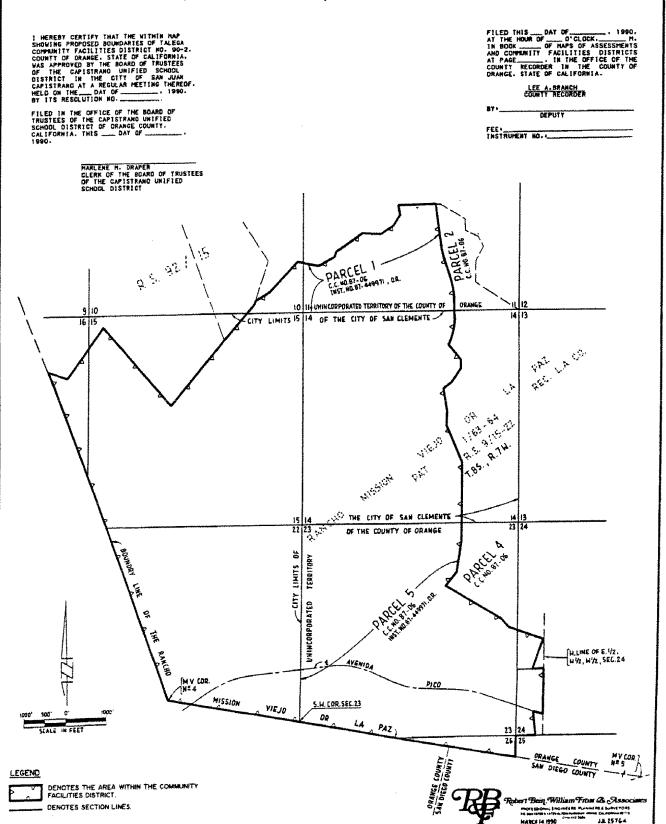
Its: Vice President

By:

Its: Secretary

PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT

(TALEGA)
COUNTY OF ORANGE, STATE OF CALIFORNIA



ROBERT BEIN, WILLIAM FROST & ASSOCIATES 14725 Alton Parkway Irvine, California 92718

March 14, 1990 JN 25764.L5 Page 1 of 2

LEGAL DESCRIPTION

CAPISTRANO UNIFIED SCHOOL DISTRICT MELLO ROOS (TALEGA)

Those certain parcels of land situated partly in the City of San Clemente and partly in the unincorporated territory of the County of Orange, State of California, being those portions of the Rancho Mission Viejo or La Paz as shown on map thereof recorded in Book 1, Pages 63 and 64 of Patents in the Office of the County Recorder of Los Angeles County, California, lying within Sections 10, 11, 14, 15, 16, 22, 23, 24 and 26, Township 8 South, Range 7 West, as said sections are shown on a Record of Survey Map of the sectionizing of said Rancho, filed in Book 9, Pages 15 through 22 of Records of Surveys in the Office of the County Recorder of said Orange County described as follows:

Parcels 1 and 5 as described in Certificate of Compliance No. 87-06 recorded August 7, 1987 as Instrument No. 87-449971 in said Office of the Orange County Recorder.

TOGETHER WITH those portions of said Sections 14, 15, 16 and 22 described as follows:

BEGINNING at Rancho Mission Viejo Corner No. 4 as said corner is shown on said Record of Survey; thence along the southerly boundary line of said Rancho South 79°06'07" East 3265.25 feet to the southeast corner of said Section 22; thence along the east line of said section North 0°44'04" East 4867.62 feet to the southwest corner of said Section 14; thence along the south line of said point South 89°15′32" East feet to a 3869.62 14 North 89°15′32" West 1360.24 feet from the southeast corner of said section; thence North 1°00′00" East 1518.96 feet; thence North 21°00′00" West 975.00 feet; thence North 1°35′00" East 375.00 feet; thence North 8°40′00" West 545.00 feet; thence North 49°40′00" East 285.00 feet; thence North 33°10′00" East 370.00 feet; thence North 0°10'00" East 235.00 feet; thence North 37°53'00" West 457.71 feet, more or less, to a point on a non-tangent curve concave westerly and having a radius of 1450.00 feet, the northerly terminus of said curve shall be tangent to a line having a bearing of North 1°00'00" West which passes through a point in the north line of said Section 14 distant thereon North 89°15'32" West 1537.18 feet from the northeast corner thereof, a radial line of said curve from said point bears North 63°48'55" West; thence along said curve northerly 687.97 feet through a central angle of 27°11'05"; thence along said tangent line North 1.00'00" West 182.54 feet to said north line of Section 14; thence along said north line North 89°15'32" West 3691.95 feet to the northeast corner of said Section 15; thence along the north line of said section North 89°15'06" West 1362.11 feet to the southeasterly line of the land described in a Grant Deed to the County of Orange recorded August 6, 1975 in Book 11476, Page 200 of Official

Robert Bein, William Frost & Associates Capistrano Unified School District Mello Roos (Talega) March 14, 1990 JN 25764.L5 Page 2 of 2

Records in the Office of the County Recorder of said Orange County; thence along said southeasterly line and along the general southeasterly and southerly lines of the land described in a Grant Deed to the County of Orange recorded July 1, 1974 in Book 11185, Page 15 of Official Records in the Office of the County Recorder of said Orange County through the following courses: South 39°31'40" West 2934.72 feet; thence North 39°02'02" West 2591.37 feet; thence South 35°32'42" West 1577.06 feet; thence North 66°09'36" West 468.95 feet; thence South 80°21'12" West 0.30 feet to the southwesterly boundary line, of said Rancho; thence leaving said southerly line, along said southwesterly boundary line South 19°17'42" East 8689.79 feet to the POINT OF BEGINNING.

CONTAINING: 2202 Acres, more or less.

SUBJECT TO all Covenants, Rights, Rights-of-Way and Easements of Record.

LS. 4965 Exp. 12-31-93

FOF CALIFORN

EXHIBIT "B" attached and by this reference made a part hereof.

29

RECORDED IN OFFICIAL RECORDS OF ORANGE COUNTY, CALIFORNIA

-335 PM JUL 25'90

RECORDING WHEN RECORDED RETURN TO: REQUESTED BY

FRITZ R. STRADLING, ESQ. STRADLING, YOCCA, CARLSON & RAUTH 660 Newport Center Drive, Suite 1600 Newport Beach, California 92660

Lu a. Branch RECORDER

\$13,00 C14

NOTICE OF SPECIAL TAX LIEN FOR COMMUNITY FACILITIES DISTRICT NO. 90-2

Pursuant to the requirements of Section 3114.5 of the Streets and Highways Code and Section 53328.3 of the Government Code, the undersigned clerk of the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), State of California, hereby gives notice that a lien to secure payment of a special tax which the Board of Trustees of the Capistrano Unified School District, State of California, sitting as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), is authorized to levy is hereby imposed. The special tax secured by this lien is authorized to be levied for the purpose of: (1) paying principal and interest and other costs associated with bonds, the proceeds of which are being used to finance regional roadway improvements; (2) planning, designing, constructing, acquiring, modifying, improving or rehabilitating certain real and other tangible property with an estimated useful life of five years or longer, consisting of facilities necessary to house elementary, junior high and high school students generated in the District, including landscaping, parking, classrooms, administrative areas, multimedia facilities, furniture and related equipment; and (3) providing moneys needed to create or replenish certain reserve funds.

The special tax is authorized to be levied within Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), which has now been officially formed and the lien of the special tax is a continuing lien which shall secure each annual levy of the special tax and which shall continue in force and effect until the special tax obligation is prepaid, permanently satisfied, and canceled in accordance with law or until the special tax ceases to be levied and a notice of cessation of special tax is recorded in accordance with Section 53330.5 of the Government Code.

The rate and method of apportionment and manner of collection of the authorized special tax is as follows:

A Special Tax shall be levied on and collected from each parcel of Taxable Property as described below. All of the property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. Definitions.

The terms hereinafter set forth have the following meanings:

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

"Board" means the Board of Trustees of the Capistrano Unified School District.

"Consumer Price Index" means the index for the Los Angeles-Anaheim-Riverside Consolidated Metropolitan Statistical Area, published monthly by the U.S. Department of Labor, Bureau of Labor Statistics.

"Facilities" means any improvements or facilities designated by the Board with an estimated useful life of five years or longer which are eligible for financing under the provisions of the Act.

"Land Use Class" means any of the categories listed in Table I of Section C below to which a parcel is assigned consistent with the provisions hereof.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by the Board for each class of Taxable Property.

"Special Tax" means the Special Tax for each Land Use Class determined in accordance with Section C below, that can be levied by the Board.

"Taxable Property" means all Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.

B. Assignment to Land Use Class.

All Taxable Property within CFD No. 90-2 shall be assigned to one of the classes designated in Table I below and shall be subject to tax in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. The applicable Maximum Special Tax shall be determined

pursuant to Section C, based on building square footage for parcels assigned to one of the classes designated in Table I below.

The square footage of a residential unit (assessable space, exclusive of garages) shall be determined by reference to the building permit application for such parcel, as submitted to the Environmental Management Agency, County of Orange. The square footage of a commercial/industrial building shall be computed from the gross square footage for the building(s) as reflected in the building plans upon which the building permit application for such parcel was prepared and submitted to the Environment Management Agency, County of Orange.

C. Maximum Special Tax Rate.

The Maximum Special Tax for an Assessor's Parcel classified as Taxable Property shall be determined by reference to Table I and Section D below.

In making the computations set forth in this Section C and in determining the Maximum Special Tax which may be levied in any Calendar Year, on January 1, 1991 and on each January 1 thereafter, the Maximum Special Tax for each class set forth in Table I shall be increased by an amount equal to the annual percentage change in the Consumer Price Index as of each January 1 or 5.0%, whichever is greater, of the amount in effect for the previous Calendar Year.

TABLE 1

MAXIMUM SPECIAL TAXES ON TAXABLE PROPERTY OF COMMUNITY FACILITIES DISTRICT NO. 90-2

Land Use Class	Description	Tax (Calendar Year 1990
1	Residential	\$1.65/sq. ft.
2	Commercial/ Industrial	\$0.30/sq. ft.

D. Method of Apportionment of the Special Tax.

Starting with the date of formation for CFD No. 90-2, the Board shall levy the Maximum Special Tax on each parcel of Taxable Property at the time of application for an initial building permit for such property. The Maximum Special Tax shall only be levied at the time of application for the issuance of an initial building permit.

E. Exemptions.

A Special Tax shall not be imposed on any parcel which is owned by a public agency or a homeowner's association, or religious organization and utilized primarily as a place of worship, or any parcel which is encumbered with public or utility easements making impractical its utilization for other than the purposes set forth in the easement.

F. Manner of Collection.

The special taxes for CFD No. 90-2 will be collected at or before the time a building permit application for any Taxable Property is submitted to the Environmental Management Agency, County of Orange.

Conditions under which the obligation to pay the special tax may be prepaid are permanently satisfied and the lien of the special tax cancelled are as follows:

No provision has been made for prepayment of the Special Tax obligation.

Notice is further given that, upon the recording of this notice in the office of the County Recorder, the obligation to pay the special tax levy shall become a lien upon all nonexempt real property within Community Facilities District No. 90-2 in accordance with Section 3115.5 of the Streets and Highways Code.

The name of the sole owner of the real property included within this community facilities district as it appears on the latest secured assessment roll as of the date of recording of this notice is as follows: Arvida/JMB Partners, LP-II, 22000 Plano Trabuco Road, Trabuco Canyon, California 92679.

Reference is made to the boundary map of Community Facilities District No. 90-2 recorded at Book 52 of Maps of Assessment and Community Facilities Districts at Page 8 in the office of the County Recorder for the County of Orange, State of California, which map is now the final boundary map of Community Facilities District No. 90-2.

The assessor's tax parcel numbers of all parcels or any portion thereof which are included within this community facilities district are as follows:

124-100-29 125-162-19 124-100-52 124-100-46 124-100-89 124-100-93 124-100-26 124-100-27 124-100-91

For further information concerning the current and estimated future tax liability of owners or purchasers of real property subject to this special tax lien, interested persons should contact David A. Doomey, Mello-Roos Funds Administrator, Capistrano Unified School District 32972 Calle Perfecto, San Juan Capistrano, California 92675, (714) 496-1215.

Clerk of the Board of Trustees of the Capistrano Unified School District Sitting as the Legislative Body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

WHEN RECORDED RETURN TO:

DENISE E. HERING, ESQ. STRADLING, YOCCA, CARLSON & RAUTH 660 Newport Center Drive, Suite 1600 Newport Beach, California 92660 Recorded in the County of Orange, California Gary L. Granville, Clerk/Recorder

19990443388 1:42pm 06/15/99

No Fee

005 20020910 20 67 A17 22 6.00 63.00 0.00 0.00 0.00 0.00

AMENDMENT NO. 1 TO NOTICE OF SPECIAL TAX LIEN FOR COMMUNITY FACILITIES DISTRICT NO. 90-2

This Amendment No. 1 to Notice of Special Tax Lien gives notice of the changes approved by the qualified electors of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), State of California (the "District"), which changes (i) provide for the levy of annual special taxes pursuant to the rate and method of apportionment attached hereto as Appendix A and incorporated herein by this reference (the "Amended Rate and Method"), (ii) expand the types of authorized public facilities to include all needed school facilities to serve the District and mitigate the development thereof, including but not limited to, K-12 school sites and construction, transportation, central support, administration, interim housing and special education facilities, together with furniture, equipment and technology, all land or interests in land required to be provided by the Capistrano Unified School District ("CUSD") as mitigation of environmental impacts associated with the development of such school facilities, all costs to CUSD related to negotiation and execution of the amended mitigation agreement, the attributable costs of engineering, design, planning, materials testing, coordination, construction staking and construction, together with the expenses related to the issuance and sale of any "debt" as defined in Section 53317(d) of the Act, including underwriters' discount, appraisals, bond insurance, letter of credit or other credit enhancement fees, market studies, reserve fund, capitalized interest, bond counsel, special tax consultant, bond and official statement printing, administrative expenses of CUSD, the District and bond trustee or fiscal agent related to the District and any such debt and all other incidental expenses (collectively, the "Facilities"), (iii) change the District boundaries to remove certain exempted parcels, so that the District includes those assessor's parcels indicated on Appendix B hereto, and (iv) increase the authorized bonded indebtedness of the District to an aggregate principal amount not to exceed \$50,000,000 for the purpose of financing the Facilities, and increase the appropriations limit for the District to \$20,000,000. The changes to the District authorized facilities and boundaries are described more fully in Resolution No. 9899-112 adopted by the Board of Trustees of the Capistrano Unified School District on April 26, 1999. Except to the extent of such changes, this Amendment No. 1 does not supersede that Notice of Special Tax Authorization recorded on July 25, 1990 as Instrument No. 90-391206 of the Official Records of the County Recorder for the County of Orange (the "Original Notice").

Pursuant to the requirements of Section 3117.5 of the Streets and Highways Code and Section 53338 of the Government Code, the undersigned clerk of the legislative body of the District hereby gives notice that the rate and method of apportionment and manner of collection of the authorized special tax as set forth in the Original Notice is hereby replaced and superseded by Appendix A attached hereto, and hereafter the rate and method of apportionment and manner of collection of the authorized special tax of the District is as set forth in Appendix A hereto.

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Conditions under which the obligation to pay the special tax may be prepaid are permanently satisfied and the lien of the special tax cancelled are as follows:

No provision has been made for prepayment of the Special Tax obligation.

For further information concerning the current and estimated future tax liability of owners or purchasers of real property subject to this special tax lien, interested persons should contact Facilities Department, Capistrano Unified School District, 32972 Calle Perfecto, San Juan Capistrano, California 92675, (949) 489-7264.

Clerk of the Board of Trustees of the Capistrano Unified School District Sitting as the Legislative Body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

APPENDIX A

AMENDED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES OF COMMUNITY FACILITIES DISTRICT NO. 90.2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Capistrano Unified School District Community Facilities District No. 90-2 (Talega) ("CFD No. 90-2") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Golf Course Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property," "Taxable Senior Housing Property," "Undeveloped Non-Residential Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. **DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 90-2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District. CFD No. 90-2 or any designee thereof of complying with School District, CFD No. 90-2 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 90-2 or any designee thereof related to an appeal of the Special Tax: the costs associated with the release of funds from an escrow account; and the School

District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or CFD No. 90-2 for any other administrative purposes of CFD No. 90-2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

- "Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's Parcel number.
- "Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.
- "Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Backup Special Tax" means the Special Tax applicable to each Assessor's Parcel of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Board" means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 90-2.
- "Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 90-2 under the Act.
- "CFD Administrator" means an official of the School District, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.
- "CFD No. 90-2" means Capistrano Unified School District Community Facilities District No. 90-2 (Talega).
- "County" means the County of Orange.
- "Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Taxable Senior Housing Property, for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.
- "Expected Special Tax" means the Special Tax for each Acre of Undeveloped Non-Residential Property, as determined in accordance with Section C below.
- "Fiscal Year" means the period starting July 1 and ending on the following June 30.

"Golf Course Property" means the area consisting of up to 206.6 acres of the golf course property described and geographically identified in Attachment A to this Rate and Method of Apportionment and in Exhibit A of the Talega Area Plan dated September 8, 1998 for planning areas B, C, G, H, and I, and portions of planning areas D and E, as amended from time-to-time or modified pursuant to a precise site plan for such golf course property.

"Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Land Use Class" means any of the classes listed in Table 1.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Taxable Property.

"Non-Residential Floor Area" means the total building square footage of the building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides. The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

"Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.

"Property Owner Association Property" means any property within the boundaries of CFD No. 90-2 that is owned by or dedicated to a property owner association, including any master or sub-association.

"Proportionately" means for Developed Property and Taxable Senior Housing Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property and Taxable Senior Housing Property within CFD No. 90-2. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 90-2. For Undeveloped Non-Residential Property, "Proportionately" means the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Non-Residential Property in CFD No. 90-2.

"Public Property" means any property within the boundaries of CFD No. 90-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County or any other public agency, provided however that any property leased by a public agency to a private entity and

subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

"Religious Property" means all property within the boundary of CFD No. 90-2 which is used primarily as a place of worship and is exempt from ad valorem property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

"Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"School District" means the Capistrano Unified School District.

"Senior Housing Property" means all Assessor's Parcels which are used or intended to be used as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code Section 65995.1. An Assessor's Parcel shall only be designated as Senior Housing Property if Senior Citizen Restrictions have been recorded with respect to such Assessor's Parcel.

"Senior Citizen Restriction" means a restriction limiting the use of an Assessor's Parcel to senior citizen housing, as defined in Section 65995.1 of the Government Code, under a final map, other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar binding recorded instrument that may not be amended to remove such use limitation without prior written notice to School District.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Undeveloped Property, Undeveloped Non-Residential Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Taxable Senior Housing Property to fund the Special Tax Requirement.

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii)

less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Golf Course Property" means all of the Assessor's Parcels of Golf Course Property that are not exempt pursuant to Section E below.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Taxable Religious Property" means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.

"Taxable Senior Housing Property" means all Assessor's Parcels of Senior Housing Property that are not exempt pursuant to Section E below.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Non-Residential Property" means, for each Fiscal Year, all Assessor's Parcels that are zoned for commercial or industrial use, and for which no building permit for a commercial or industrial structure has been issued.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, Taxable Senior Housing Property, or Undeveloped Non-Residential Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 90-2 shall be classified as Developed Property, Taxable Golf Course Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property, Undeveloped Non-Residential Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Developed Property shall be further classified as Residential Property and Non-Residential Property.

Residential Property shall be assigned to Land Use Class 1, Taxable Senior Housing Property shall be assigned to Land Use Class 2, and Non-Residential Property shall be assigned to Land Use Class 3.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property and Taxable Senior Housing Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property or Taxable Senior Housing Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class is shown below in Table 1. The Assigned Special Tax for Residential Property and Taxable Senior Housing Property shall be based on the amount of Residential Floor Area on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the amount of Non-Residential Floor Area on the Assessor's Parcel.

TABLE 1

Assigned Special Taxes for Developed Property and Taxable Senior Housing Property For Fiscal Year 1999-2000 Community Facilities District No. 90-2

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3294 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3294 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0599 per square foot of Non-Residential Floor Area.

c. Backup Special Tax

The Fiscal Year 1999-2000 Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property shall equal \$0.1670 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax shall not apply to the first 100 Acres of Non-Residential Property, as determined by the CFD Administrator.

d. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2000, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property

a. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property in CFD No. 90-2 shall be \$6,177 per Acre.

b. <u>Increase in the Maximum Special Tax</u>

On each July 1, commencing on July 1, 2000, the Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

3. Undeveloped Non-Residential Property

a. Expected Special Tax

The Fiscal Year 1999-2000 Expected Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$1,123 per Acre.

b. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$6,177 per Acre.

c. <u>Increase in the Maximum Special Tax and Expected Special Tax</u>

On each July 1, commencing on July 1, 2000, the Maximum Special Tax and Expected Special Tax for Undeveloped Non-Residential Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement.

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Expected Tax for Undeveloped Non-Residential Property, respectively;

<u>Third</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

E. EXEMPTIONS

No Special Tax shall be levied on up to 1,230.74 Acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 Acres of Golf Course Property. In addition, no Special Tax shall be levied on up to 66.02 Acres of Senior Housing Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Golf Course Property, Property Owner Association Property, Public Property, Religious Property or Senior Housing Property, Property Owner Association Property, Public Property, Religious Property, Owner Association Property, Public Property, Religious Property, or Senior Housing Property its tax-exempt status will be revoked.

F. REVIEW/APPEAL COMMITTEE

The Board shall establish as part of the proceedings and administration of CFD No. 90-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 90-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means either \$33,938,000 million in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 90-2 under the authorized bonding program for CFD No. 90-2, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

"Outstanding Bonds" means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 90-2 prior to the date of prepayment.

1. Prepayment in Full

All Assessor's Parcels of Developed Property or Taxable Senior Housing Property and Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 90-2 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

Bond Redemption Amount

plus Redemption Premium
plus Future Facilities Amount
plus Defeasance Amount

plus Administrative Fees and Expenses

less Reserve Fund Credit

less Capitalized Interest Credit

Total: equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

- 1. For Assessor's Parcels of Developed Property or Taxable Senior Housing Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
- 2. (a) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 90-2 based on the Developed Property Special Taxes and Taxable Senior Housing Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 90-2, excluding any Assessor's Parcels which have been prepaid, and
 - (b) Divide the Backup Special Tax computed pursuant to paragraph 1 by the estimated Backup Special Taxes at buildout of CFD No. 90-2 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
- 3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
- 4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
- 5. Compute the current Future Facilities Costs

- 6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
- 7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
- 8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
- 9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
- 10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
- 11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
- 12. Verify the administrative fees and expenses of No. 90-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
- 13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
- 14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
- 15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 90-2.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 90-2 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Maximum Special Tax on an Assessor's Parcel of Developed Property or Taxable Senior Housing Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

 $PP = P_E \times F$.

These terms have the following meaning:

PP = the partial prepayment

 P_E = the Prepayment Amount calculated according to Section H.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially prepaying the Maximum Annual Special Tax.

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the

amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and will charge a fee to the owner requesting prepayment for providing this figure.

With respect to any Assessor's Parcel that is partially prepaid, the School District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 90-2 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

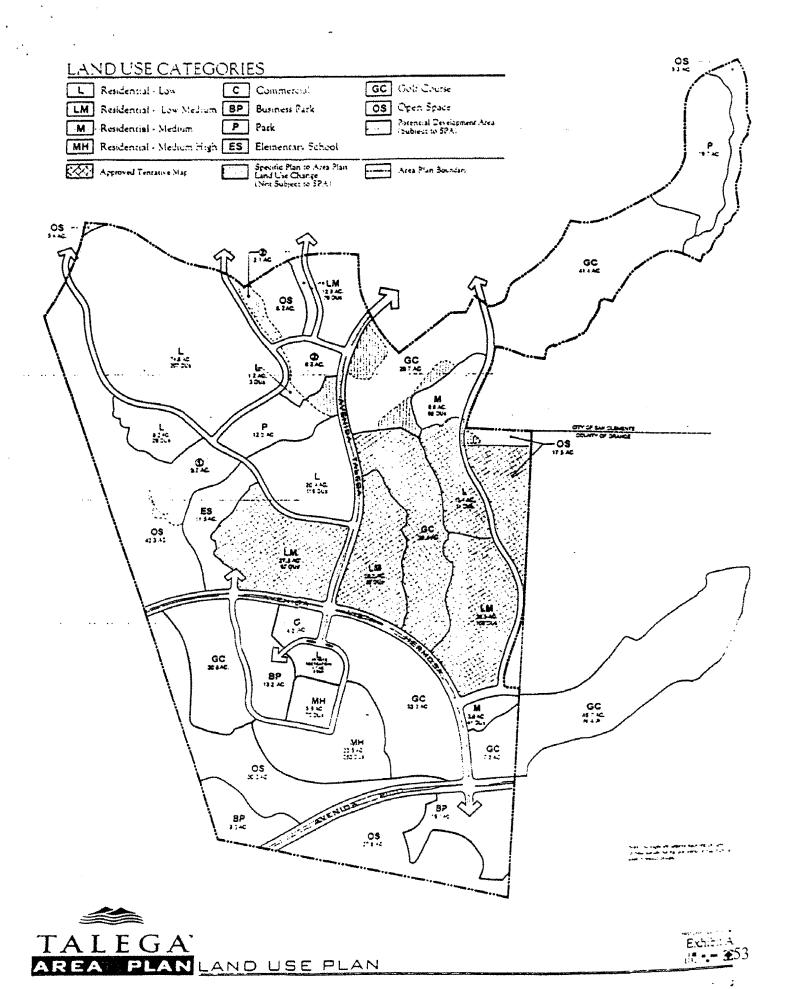
I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2041-42.

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CONTINUATION OF APPENDIX"A" -ATTACHMENT A

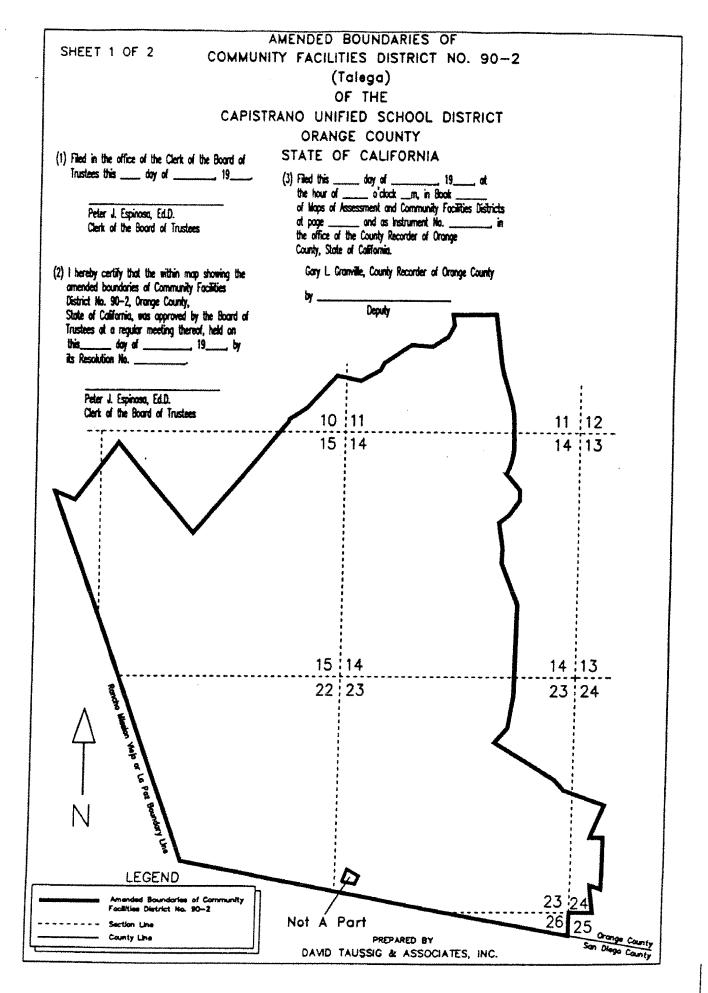
GOLF COURSE PROPERTY



APPENDIX B

DISTRICT ASSESSOR'S PARCEL LIST

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SHEET 2 OF 2

AMENDED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 90-2 (Talega)

OF THE

CAPISTRANO UNIFIED SCHOOL DISTRICT ORANGE COUNTY STATE OF CALIFORNIA

This map amends the proposed boundary map for Capistrano Unified School District Community Facilities Distict No. 90—2, Orange County, State of California, prior recorded at Book 52 of Maps of Assessment and Community Facilities Districts at Page 8, as Instrument No. 90—212062, on April 23, 1990 in the office of the County Recorder for the County of Orange, State of California.

ORANGE COUNTY ASSESSOR PARCEL NUMBERS INCLUDED WITHIN AMENDED C.F.D. BOUNDARY

124-100-26 124-100-27 124-100-46 124-100-49 124-100-96 124-100-97 125-162-19 701-011-01 To 701-011-12 701-021-01 To 701-021-11 701-032-01 To 701-032-07 701-032-09 To 701-032-14 701-033-02 701-033-04 701-041-01 To 701-041-09 701-041-13 701-041-15 To 701-041-17 701-041-19 To 701-041-24

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

701-043-01 To 701-043-03

PREPARED BY DAVID TAUSSIG & ASSOCIATES, INC.

RESOLUTION NO. 0506-73

RESOLUTION OF THE BOARD OF TRUSTEES OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) AUTHORIZING THE ISSUANCE OF ITS SERIES 2006 SPECIAL TAX REFUNDING BONDS, AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

April 24, 2006

On motion of Trustee	Benecke	_, duly seconded and carried, the following resolution
was adopted:		-

WHEREAS, the Board of Trustees of the Capistrano Unified School District, located in Orange County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") pursuant to the terms and provisions of the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, pursuant to Resolution No. 9899-126 adopted by the legislative body of the District on the 26th day of April, 1999, the ballot propositions attached as Exhibit A hereto and incorporated herein by reference were submitted to the qualified electors within the District, and were unanimously approved at an election held on June 14, 1999, pursuant to which election the qualified electors authorized an amended rate and method of apportionment and other amendments for the District; and

WHEREAS, based upon Resolution No. 9899-126 and the election, the District was authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$50,000,000; and

WHEREAS, the District has previously issued its 2001 Special Tax Bonds (the "2001 Bonds") in the aggregate principal amount of \$23,050,000 and its 2002 Special Tax Bonds (the "2002 Bonds") in the aggregate principal amount of \$17,605,000 (the 2001 Bonds and the 2002 Bonds being referred to herein collectively as the "Prior Bonds"); and

WHEREAS, the Board has determined that it has now funded all projects intended to be funded with bond proceeds of the CFD and, therefore, has determined that it is necessary and desirable for the benefit of the CFD taxpayers to reduce the CFD bond authorization by \$9,345,000, which is the unissued portion of the original \$50 million authorization, and to reduce the final term of the CFD tax levy from fiscal year 2041-42 to fiscal year 2036-37, so long as the tax is not needed to pay debt service on bonds of the CFD; and

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WHEREAS, the legislative body of the District desires to proceed to issue bonds at this time in an aggregate principal amount which complies with the refunding provisions of the Act for the purpose of refunding all or part of the Prior Bonds (the "Bonds"); and

WHEREAS, in order to effect the issuance of the Bonds, the legislative body of the District desires to enter into a continuing disclosure agreement (the "Continuing Disclosure Agreement") in substantially the form presented herewith; and

WHEREAS, the legislative body of the District has determined in accordance with Government Code Section 53360.4 that a negotiated sale of the Bonds to UBS Securities LLC (the "Underwriter") in accordance with the terms of the Bond Purchase Agreement approved as to form by this legislative body herein will result in a lower overall cost to the District than a public sale;

NOW, THEREFORE, the Board of Trustees of the Capistrano Unified School District acting as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) DOES HEREBY RESOLVE, ORDER AND DETERMINE AS FOLLOWS:

SECTION 1. Each of the above recitals is true and correct and is adopted by the legislative body of the District.

SECTION 2. Capistrano Unified School District, by its Resolution No. 9899-127, adopted on June 14, 1999, has declared that Proposition A, Proposition B and Proposition C presented to the qualified electors of the District on June 14, 1999, copies of which are attached hereto as Exhibit A, have received a unanimous vote of the qualified electors voting at said election, and Proposition A, Proposition B and Proposition C each has carried, and, accordingly, the legislative body of the District is presently authorized to issue from time to time as determined by the legislative body bonds for the benefit of the District for the purposes set forth in Proposition A and to take the necessary steps to levy the special tax authorized by Proposition A.

SECTION 3. The issuance of the Bonds, for savings and in all manner complying with the requirements of the Act, is hereby authorized with the exact principal amount of Bonds to be determined by the official signing the Bond Purchase Agreement in accordance with Section 8 below. The legislative body of the District hereby determines that it is prudent in the management of its fiscal affairs to issue the Bonds. The Bonds shall mature on the dates and pay interest at the rates set forth in the Bond Purchase Agreement to be executed on behalf of the District in accordance with Section 8 hereof. All other provisions of the Bonds shall be governed by the terms and conditions of the Bond Indenture (the "Indenture") to be prepared by Bond Counsel to the District and executed by the President and Clerk of the legislative body of the District, or their written designees, which Indenture shall be in the form provided herewith, with such additions thereto and changes therein as the officers executing the same deem necessary to establish the amount of capitalized interest to be financed, to enhance the security for the Bonds, to cure any ambiguity or defect therein if such addition or change does not materially alter the substance or content thereof, to insert the offering price(s), interest rate(s), selling compensation, principal amount per maturity and such other related terms and provisions as limited by Section 8 hereof, or to conform any provisions therein to the Bond Purchase Agreement or the Official Statement delivered to the purchasers of the Bonds in accordance with Section 8 hereof. Additional changes in, or additions to, the Indenture may be made to provide for municipal bond insurance, including without limitation, the addition of senior and subordinate series of Bonds. Approval of such changes shall be conclusively evidenced by the execution and

delivery of the Indenture by such officers. Capitalized terms used in this Resolution which are not defined herein have the meanings ascribed to them in the Indenture.

In satisfaction of the requirements contained in Section 53363.2 of the Act, the Board hereby determines that: (1) it is anticipated that the purchase of the Bonds will occur on or about May 1, 2006, (2) the Bonds shall bear the date, be in the denominations, have the maturity dates (which do not exceed the latest maturity date of the Prior Bonds being refunded), be payable at the place and be in the form specified in the Indenture, (3) the Bonds will bear interest at the minimum rate of 1.5% per annum, and (4) the designated cost of issuing the Bonds being used to refund the Prior Bonds, as defined by Section 53363.8 of the Act, shall include all of the costs specified in Section 53363.8(a), (b)(2) and (c).

In satisfaction of the requirements contained in Section 53364.2 of the Act, the Board hereby determines that any savings achieved through the issuance of the Bonds shall be used to reduce special taxes of the District, and such reductions shall be made in accordance with the Act.

SECTION 4. The Bonds shall be executed on behalf of the District by the manual or facsimile signature of the President of the legislative body of the District, and the seal of the District, or a facsimile thereof, shall be impressed or imprinted thereon and attested with the manual or facsimile signature of the Clerk of the legislative body of the District.

SECTION 5. The covenants set forth in the Indenture to be executed in accordance with Section 3 above are hereby approved, shall be deemed to be covenants of the Board of Trustees in its capacity as the legislative body of the District and shall be complied with by the District and its officers. The Indenture shall constitute a contract between the District and the Owners of the Bonds.

SECTION 6. The District bond authorization is hereby reduced by \$9,345,000 and the final term of the District special tax levy is shortened from fiscal year 2041-42 to fiscal year 2036-37, provided that, notwithstanding the foregoing, the District special tax term shall not be reduced, and the District special tax shall continue to be levied, for so long as the District special tax is needed to pay debt service on bonds of the District.

SECTION 7. U.S. Bank National Association is hereby appointed to act as Fiscal Agent, Registrar and Transfer Agent for the Bonds and the Deputy Superintendent, Administration, or his written designee, is hereby authorized to enter into an agreement with the Fiscal Agent to provide such services to the District. David Taussig & Associates is hereby appointed to act as Special Tax Consultant for the District and the Bonds and the Deputy Superintendent, Administration, or his written designee, is hereby authorized to enter into an agreement with the Special Tax Consultant to provide such services to the District. Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel to the District, is hereby directed to prepare the Preliminary Official Statement for the Bonds, and to finalize such document, on behalf of the District, and the Deputy Superintendent, Administration, or his written designee, is hereby authorized to enter into an agreement with Bond Counsel to provide such services to the District.

The form of the Bond Purchase Agreement presented at this meeting is hereby approved and any one of the President of the legislative body of the District, the Deputy Superintendent, Administration, or the written designee of any such officer is hereby authorized to execute the Bond Purchase Agreement, with such additions thereto and changes therein relating to dates and numbers as are necessary to conform the Bond Purchase Agreement to the dates, amounts and interest rates

applicable to the Bonds as of the sale date. Approval of such additions and changes shall be conclusively evidenced by the execution and delivery of the Bond Purchase Agreement; provided, however, that the Bond Purchase Agreement shall be signed only if there is a net present value savings of at least 3% on the refunding of the Prior Bonds and the Underwriter's discount (not including any original issue discount) does not exceed 0.50% of the principal amount of the Bonds. Each of the Deputy Superintendent, Administration and his designee is authorized to determine the day on which the Bonds are to be priced in order to attempt to produce the lowest borrowing cost for the District and may reject any terms presented by the Underwriter if determined not to be in the best interest of the District and to execute the Bond Purchase Agreement on behalf of the District. The Bonds may be issued as capital appreciation bonds or in any other legally permissible form.

SECTION 8. The forms of the Continuing Disclosure Agreement and Preliminary Official Statement presented at this meeting are hereby approved in the forms presented, together with such changes as are approved by the Deputy Superintendent, Administration, in order to provide to the Underwriter the Preliminary Official Statement in "near final" form for the purpose of marketing the Bonds, and the Deputy Superintendent, Administration, is hereby directed to review, finalize and approve the Preliminary Official Statement on behalf of this Board. The Underwriter is hereby authorized to distribute the Preliminary Official Statement to prospective purchasers in the form approved by the Deputy Superintendent, Administration, or his designee, as evidenced by a certificate of such officer, which certificate such officer is hereby authorized to execute, to make such Preliminary Official Statement final as of its date for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Each of the President of the legislative body of the District and the Deputy Superintendent, Administration, acting solely, is hereby authorized to execute the Continuing Disclosure Agreement in the form hereby approved, with such additions therein and changes thereto as the officers executing the same deem necessary to cure any defect or ambiguity therein if such change does not materially alter the substance or content thereof, with such approval to be conclusively evidenced by the execution and delivery of such certificate and agreement, and to execute a final Official Statement, in the form of the Preliminary Official Statement, together with such changes as are determined necessary by the Deputy Superintendent, Administration, or his designee, to make such Official Statement complete and accurate as of its date. The Underwriter is further authorized to distribute the final Official Statement for the Bonds to the purchasers thereof upon its execution by an officer of the District as described above.

SECTION 9. The forms of the Escrow Agreements presented at this meeting are hereby approved. Each of the President of the legislative body of the District and the Deputy Superintendent, Administration, acting solely, is hereby authorized to execute the Escrow Agreements in the form hereby approved, with such additions therein and changes thereto as the officers executing the same deem necessary to cure any defect or ambiguity therein if such change does not materially alter the substance or content thereof, with such approval to be conclusively evidenced by the execution and delivery of such certificate.

SECTION 10. The Deputy Superintendent, Administration, or his written designee, is authorized to provide for all services necessary to effect the issuance of the Bonds. Such services shall include, but not be limited to, printing the Bonds, the Preliminary Official Statement and the final Official Statement, obtaining legal services, fiscal agent services, municipal bond insurance, a reserve credit facility for the Bonds and any other services deemed appropriate as set forth in a certificate of the Deputy Superintendent, Administration, or his written designee. The Deputy Superintendent, Administration, or his written designee, is authorized to pay for the cost of such

services, together with other Costs of Issuance, with Bond proceeds deposited to the Acquisition and Construction Fund established pursuant to the Indenture.

SECTION 11. The President, Clerk and Secretary of the legislative body of the District and the other officers and staff of the School District responsible for the fiscal affairs of the District are hereby authorized and directed to take any actions and execute and deliver any and all documents, all as are necessary to accomplish the issuance, sale and delivery of the Bonds in accordance with the provisions of this Resolution and the Indenture and the fulfillment of the purposes of the Bonds as described in the Indenture. In the event that either the President or Clerk of the legislative body of the District is unavailable to sign any document authorized for execution herein, any other member of the legislative body of the District or the Deputy Superintendent, Administration, or his written designee, may sign such document. Any document authorized herein to be signed by the Clerk or Secretary of the legislative body of the District may be signed by a duly appointed deputy.

President of the Board of Trustees of the Capistrano Unified School District acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

Clerk Secretary of the Board of Trustees of the Capistrano Unified School District acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

AYES: 7

NOES: 0

ABSTAIN: 0

ABSENT: 0

STATE OF CALIFORNIA)	
)	SS.
COUNTY OF ORANGE)	

I, James A. Fleming, Secretary of the Board of Trustees of the Capistrano Unified School District, County of Orange, State of California, acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), hereby certify that the above and foregoing Resolution was duly and regularly adopted by said Board at a regular meeting thereof held on the 24th day of April, 2006 and passed by a 7-0 vote of said Board.

Secretary of the Board of Trustees of the Capistrano Unified School District acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

EXHIBIT A

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

SPECIAL TAX ELECTION

JUNE 14, 1999

You are entitled to cast ___votes.

To vote, stamp a cross (+) in the voting square after the word "YES" or after the word "NO". All marks otherwise made are forbidden. All distinguishing marks are forbidden and make the ballot void.

If you wrongly mark, tear, or deface this ballot, return it to the Clerk of the Board of Trustees and obtain another.

within Community Facilities District No. 90-2 of the Capistrano Unified	YES
School District (the "District"), the facilities that may be financed, and the boundaries of the District be changed as described in the resolution of the District calling an election regarding such changes, as adopted by the Board of Trustees on June 14, 1999?	NO
PROPOSITION B: Shall the District incur an indebtedness and issue bonds in the maximum principal amount of \$50,000,000, with interest at	YES
a rate or rates not to exceed the maximum interest rate permitted by law, to finance the Facilities and the Incidental Expenses described in Resolution No. 9899-112 of the Board of Trustees of the Capistrano Unified School District?	NO
PROPOSITION C: For each year commencing with Fiscal Year 1999-2000, shall the appropriations limit, as defined by subdivision (h) of	YES
Section 8 of Article XIII B of the California Constitution, for Community Facilities District No. 90-2, be an amount equal to \$20,000,000?	NO

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TITLE 5. LOCAL AGENCIES [50001 - 57550] (Title 5 added by Stats. 1949, Ch. 81.)							
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DIVIS	10N 2. C	THES, COUN	HES, AND O	THER AGENCIES [5300	0 - 55821]	(Division 2 added b)	/ Stats. 1949, Ch. 81.
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PART 1. POWERS AND DUTIES COMMON TO CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 54999.7] (Part 1 added by Stats. 1949, Ch. 81.)

CHAPTER 2.5. The Mello-Roos Community Facilities Act of 1982 [53311 - 53368.3] (Chapter 2.5 added by Stats. 1982, Ch. 1451, Sec. 1.)

ARTICLE 5. Bonds [53345 - 53365.7] (Article 5 added by Stats. 1982, Ch. 1451, Sec. 1.)

- **53364.2.** (a) If further facilities or services are authorized to be financed by the district, savings achieved through the issuance of refunding bonds may be used by the legislative body for those purposes.
- (b) If no further facilities or services are authorized to be financed by the district, any savings achieved through the issuance of refunding bonds shall be used by the legislative body to reduce the special taxes levied to retire outstanding bonds.
- (c) Savings achieved through the issuance of refunding bonds may be used pursuant to both subdivisions (a) and (b) in proportions determined by the legislative body.
- (d) For purposes of this section, the terms "savings achieved through the issuance of refunding bonds" means the difference between the principal and interest to maturity of the refunded bonds and the principal and interest to maturity of the refunding bonds.
- (e) If savings are to be used for authorized facilities, bonds may be issued that are secured by that savings.

(Amended by Stats. 2007, Ch. 670, Sec. 111. Effective January 1, 2008.)

STRADLING YOCCA CARLSON & RAUTH

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SAN FRANCISCO OFFICE 44 MONTGOMERY STREET, SUITE 2650 5AN FRANCISCO, CALIFORNIA 94104 TELEPHONE (415) 283-2240 FACSIMILE (415) 283-2255

SANTA BARBARA OFFICE 302 OLIVE STREET SANTA BARBARA, CALIFORNIA 93101 TELEPHONE (805) 564-9085 FACSIMILE (805) 564-1044

June 8, 2006

Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) San Juan Capistrano, California

Re: \$44,980,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Capistrano Unified School District (the "School District") taken in connection with the formation of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and the authorization and issuance of Series 2006 Special Tax Refunding Bonds issued by the District in the aggregate principal amount of \$44,980,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have assumed the genuineness of all documents and signatures presented to us and we have relied upon certain representations of fact and certifications made by the School District, the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of June 1, 2006 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Fiscal Agent"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds mature on the dates and in the amounts set forth in the Indenture. The Bonds are dated their date of delivery and bear interest payable semiannually on each March 1 and September 1, commencing September 1, 2006, at the rates per annum described in the Indenture. The Bonds are registered Bonds in the forms set forth in the Indenture.

Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) June 8, 2006 Page 2

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

- and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the School District, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the School District, the State of California, or any of its political subdivisions is pledged for the payment thereof.
- (2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained therein.
- (3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.
- (4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) June 8, 2006 Page 3

- (5) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.
- (6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (4) above) and is exempt from State of California personal income tax.
- (7) The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinion expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5) (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture and the Tax Certificate for the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

DOCSOC/1173117v1/022508-0066

Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) June 8, 2006 Page 4

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

Strading Yaxa Carbon & Lough

BOND INDENTURE

Between

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

and

U.S. BANK NATIONAL ASSOCIATION,

as Fiscal Agent

\$44,980,000 COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2006 SPECIAL TAX REFUNDING BONDS

Dated as of June 1, 2006

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BOND INDENTURE

THIS BOND INDENTURE dated as of June 1, 2006 governs the terms of the Series 2006 Special Tax Refunding Bonds of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "Bonds" or the "Series 2006 Bonds").

RECITALS:

WHEREAS, the Board of Trustees of the Capistrano Unified School District, located in Orange County, California (hereinafter sometimes referred to as the "legislative body of the District"), has heretofore undertaken proceedings and declared the necessity to issue bonds on behalf of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") pursuant to the terms and provisions of the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the "Act"); and

WHEREAS, based upon Resolution No. 9899-112 adopted by the legislative body of the District on April 26, 1999 and an election held on June 14, 1999 authorizing the levy of a special tax and the issuance of bonds by the District, the District is now authorized to issue bonds in one or more series, pursuant to the Act, in an aggregate principal amount not to exceed \$50,000,000; and

WHEREAS, the District has previously issued its 2001 Special Tax Bonds (the "2001 Bonds") in the aggregate principal amount of \$23,050,000 and its 2002 Special Tax Bonds (the "2002 Bonds") in the aggregate principal amount of \$17,605,000 (the 2001 Bonds and the 2002 Bonds being referred to herein collectively as the "Prior Bonds"); and

WHEREAS, the District is now authorized to issue additional bonds in an aggregate principal amount not to exceed \$9,345,000 to fund additional projects and the District, having determined that authorized facilities of the District which have not yet been funded may be adequately funded from future annual District special tax levies in excess of annual debt service requirements and annual administrative expenses of District, has determined that it desirable and in the best interests of the District taxpayers to waive its right to issue such additional bonds; and

WHEREAS, the legislative body of the District desires to proceed to issue bonds at this time in an aggregate principal amount of \$44,980,000 designated as the "Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds" (the "Bonds"), which bonds will be issued for the purpose of refunding the Prior Bonds; and

WHEREAS, the District has determined all requirements of the Act for the issuance of the Bonds have been satisfied;

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings:

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

"Administrative Expenses" means the administrative costs incurred by the School District staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys' fees and other costs related thereto, the fees and expenses of the Fiscal Agent, any fees for credit enhancement for the Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District's compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, costs incurred by the District in pursuit of State funding, the premium for a reserve fund policy and any other costs otherwise incurred by the School District staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District hereunder.

"Administrative Expense Account" means the account by such name in the Special Tax Fund created and established pursuant to Section 3.1 hereof.

"Administrative Expense Cap" means the amount of \$75,000, with such amount escalating by 2% per Bond Year beginning September 2, 2006, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District, including the Special Reserve Fund.

"Alternative Penalty Account" means the account by such name created and established in the Rebate Fund pursuant to Section 3.1 hereof.

"Annual Debt Service" means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (1) For all purposes including defeasance investments in refunding escrow accounts (the Fiscal Agent is entitled to rely upon investment direction of the District as a certification that such investment is a Permitted Investment):
 - (a) cash: or

- (b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S., including:
 - U.S. treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding 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).

- (2) For all purposes other than defeasance investments in refunding escrow accounts:
- (a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;
- (b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies approved by the Insurer;
- (c) U.S. dollar denominated deposit accounts and bankers' acceptances with domestic commercial banks (including those of the Fiscal Agent and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);
- (d) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;
- (e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Fiscal Agent or its affiliates provide investment advisory or other management services;
- (f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local

governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

- (i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successors thereto; or
- (ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (g) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;
- (h) investment agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);
- (i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Fiscal Agent is authorized to register such investment in its name;
- (j) subject to approval by the Insurer, the Orange County Pooled Education Investment Fund (including the Money Market Fund and Extended Fund); and
- (k) other forms of investments (including repurchase agreements) approved in writing by the Insurer.

The value of the above investments shall be determined as follows:

- (a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Fiscal Agent shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.
- (b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest.
- (c) As to any investment not specified above: the value thereof established by prior agreement between the District, the Fiscal Agent and the Insurer.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Fiscal Agent shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

"Authorized Representative of the District" means the Deputy Superintendent, Administration or any other person or persons designated by the Board of Trustees of the School District and authorized to act on behalf of the District by a written certificate signed on behalf of the School District by the President of the Board of Trustees and containing the specimen signature of each such person.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax exempt nature 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 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.

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

"Bonds" means the District's \$44,980,000 Series 2006 Special Tax Refunding Bonds issued pursuant to this Indenture.

"Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds shall begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the City where the corporate trust office of the Fiscal Agent is located, are not required or authorized to remain closed.

"Certificate of the Deputy Superintendent, Administration" means a written certificate or warrant request executed by the Deputy Superintendent, Administration, or his written designee, on behalf of the District.

"Certificate of the Special Tax Administrator" means a certificate of David Taussig & Associates in its capacity as the consultant engaged by the School District to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

"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.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement dated as of June 1, 2006 between the District and U.S. Bank National Association, as dissemination agent, together with any amendments thereto.

"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, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants, reserve fund policy premiums, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Deputy Superintendent, Administration.

"Costs of Issuance Account" means the Account by that name created and established in the Acquisition and Construction Fund pursuant to Section 3.1 hereof.

"Delivery Date" means the date on which the Bonds were issued and delivered to the initial purchasers thereof.

"District" means Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) established pursuant to the Act and the Resolution of Formation.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"DTC Participants" means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

"Escrow Agreement" or "Escrow Agreements" means the Escrow Agreements, dated as of June 1, 2006, each by and between the District and the Escrow Bank.

"Escrow Bank" means U.S. Bank National Association, and its successors and assigns, as escrow bank under the Escrow Agreement.

"Federal Securities" means any of the investments listed in (1)(a) or (1)(b) of the definition of Authorized Investments.

"Fiscal Agent" means U.S. Bank 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 7.2 or 7.3 and any successor thereto.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

"Gross Taxes" means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of this Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

"Guaranty Agreement" means that certain Debt Service Reserve Fund Policy Agreement dated as of the Delivery Date by and between the District and the Insurer.

"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 the School District:
- (2) does not have any substantial interest, direct or indirect, in the District or the School District; and
- (3) is not connected with the District or the School District as a member, officer or employee of the District or the School District, but who may be regularly retained to make annual or other reports to the District or the School District.

"Indenture" means this Bond Indenture, together with any Supplemental Indenture entered into pursuant to Article VI hereof.

"Insurance Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which the Insurance Trustee or lending institutions in the State of New York are authorized or required by law or executive order to remain closed.

"Insurance Policy" means the financial guaranty insurance policy issued by the Insurer insuring the payment when due of the principal and interest on the Bonds as provided therein.

"Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto or assignee thereof.

"Interest Account" means the account by such name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Interest Payment Date" means March 1 and September 1 of each year commencing September 1, 2006.

"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 herein.

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds by adding the following for each 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.

"National Repositories" means any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository P. O. Box 840 Princeton, New Jersey 08542-0840

Phone: (609) 279-3200 Fax: (609) 279-5962

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

Thompson NRMSIR

Attention: Municipal Disclosure 395 Hudson Street, 3rd Floor New York, New York 10014 Phone: (212) 807-3814

Fax: (212) 989-9282

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: 201-346-0701

Phone: 201-346-070 Fax: 201-947-0107

E-mail: nrmsir@dpcdata.com

"Net Taxes" means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses.

"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 9.1 hereof;
- (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 this Indenture or any applicable Supplemental Indenture f; and
- (3) Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to Section 2.9 hereof or for which a replacement has been issued pursuant to Section 2.10 hereof.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest with respect to the Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Bonds

shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Principal Account" means the Account by such name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Principal Office of the Fiscal Agent" means the office of the Fiscal Agent located in Los Angeles, California 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, collectively, the Series 2001 Special Tax Bonds of the District, originally issued in the aggregate principal amount of \$23,050,000, and the Series 2002 Special Tax Bonds of the District, originally issued in the aggregate principal amount of \$17,605,000.

"Project" means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

"Project Account" means the Account by such name created and established in the Acquisition and Construction Fund pursuant to Section 3.1 hereof.

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve accounts, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, reserve fund policy premiums, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

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

"Rebate Account" means the Account by such name created and established in the Rebate Fund pursuant to the Indenture.

"Rebate Fund" means the fund by such name created and established pursuant to the Indenture.

"Rebate Regulations" means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

"Record Date" means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

"Redemption Account" means the account by such name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Regulations" means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

"Representation Letter" means the representation letter or letters from the District to DTC.

"Reserve Account" means the account by such name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

"Reserve Credit Facility" means a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, if any, provide an aggregate amount equal to the Reserve Requirement, so long as (a) the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in the highest rating category by A. M. Best & Company, Standard & Poor's Corporation or Moody's Investors Service and (b) so long as the Insurance Policy remains in effect, the Insurer has consented to the provider and structure of such policy of insurance, surety bond, letter of credit or other comparable credit facility. Initially the Reserve Credit Facility will be the Reserve Policy.

"Reserve Policy" shall mean the debt service reserve fund policy issued by the Insurer guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitation set forth therein.

"Reserve Requirement" means, as of any date of calculation by the District, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds, if any, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds, if any. The Reserve Requirement will be initially satisfied with \$1,932,264.45 in cash and the Reserve Policy in the amount of \$1,932,264.45.

"Resolution of Formation" means Resolution No. 9899-112 adopted by the Board of Trustees of the School District on April 26, 1999, pursuant to which the School District amended certain provisions pertaining to the District.

"RMA" means the Amended and Restated Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at the June 14, 1999 election, as further amended from time to time.

"School District" means the Capistrano Unified School District.

"Sinking Fund Payment" means the annual payment in those years indicated in Section 4.1(c) hereof to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth herein to retire the Term Bonds.

"Six-Month Period" means the period of time beginning on the Delivery Date of each issue of Bonds, as applicable, and ending six consecutive months thereafter, and each six month period thereafter until the latest maturity date of the Bonds (and any obligations that refund an issue of the Bonds).

"Special Reserve Fund" means the Fund by such name created and established pursuant to Section 3.1 hereof.

"Special Taxes" means the taxes authorized to be levied by the District in accordance with the Resolution of Formation, the Act and the voter approval obtained at the June 14, 1999 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds.

"Special Tax Fund" means the fund by such name created and established pursuant to Section 3.1 hereof.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of McGraw Hill, its successors and assigns.

"Supplemental Indenture" means any supplemental indenture entered into in accordance with the provisions hereof amending or supplementing this Indenture.

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

"Term Bonds" means the Bonds maturing on September 1, 2029 and on September 1, 2032.

"Underwriter" means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of the Bonds.

ARTICLE II

GENERAL AUTHORIZATION AND BOND TERMS

Section 2.1. Amount, Issuance, Purpose and Nature of Bonds. Under and pursuant to the Act, the Bonds in the aggregate principal amount of \$44,980,000 shall be issued for the purpose of refunding the Prior 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 the Net Taxes and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expense Account of the Special Tax Fund). Interest on the Bonds shall be payable on each March 1 and September 1, commencing September 1, 2006.

Section 2.2. Type and Nature of Bonds. Neither the faith and credit nor the taxing power of the School District, the State of California or any political subdivision thereof other than the District 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 nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described herein. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) 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 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 Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of this 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 Trustees of the School District nor any persons executing the Bonds, are liable personally on the Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in this Indenture, the 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 herein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Section 2.3. Equality of Bonds and Pledge of Net Taxes. Pursuant to the Act and this Indenture, the Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are hereby set aside for the payment of the Bonds. The Net Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are hereby pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge shall constitute a first lien on such assets. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by this Indenture or any Supplemental Indenture. Notwithstanding any provision contained in this Indenture to the contrary, Net Taxes deposited in the Rebate Fund shall no longer be considered to be pledged to the Bonds, and none of the Rebate Fund, the Administrative Expense Account of the Special Tax Fund nor the Acquisition and Construction Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in this Indenture or any Supplemental Indenture shall preclude, subject to the limitations contained hereunder, 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.

Section 2.4. Description of Bonds; Interest Rates. The Bonds will be issued in bookentry form only and will be registered in the name of DTC. The Bonds of each issue shall be numbered as desired by the Fiscal Agent.

The Bonds shall be designated "COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA), SERIES 2006 SPECIAL TAX REFUNDING BONDS". The Bonds shall be dated as of their Delivery Date. The Bonds shall mature on the dates and in the amounts, and interest on the Bonds shall be payable at the rates, described below.

Maturity Date (September 1)	Principal Amount	Interest Rate
2006	\$ 765,000	4.000%
2007	395,000	4.000
2008	460,000	4.000
2009	525,000	4.000
2010	595,000	4.000
2011	670,000	4.000
2012	750,000	4.000
2013	835,000	4.000
2014	920,000	4.000
2015	1,005,000	4.250
2016	1,110,000	4.500
2017	1,215,000	4.500
2018	1,325,000	4.250
2019	1,440,000	4.375
2020	1,570,000	4.375
2021	1,695,000	4.400
2022	1,835,000	4.400
2023	1,975,000	4.500
2024	2,130,000	4.500
2025	2,295,000	4.500
2026	2,465,000	4.500
2029	8,535,000	4.625
2032	10,470,000	4.625

Interest on each Bond of each maturity shall be payable at the respective per annum rates set forth in this Section 2.4 and shall be payable on each Interest Payment Date until maturity or earlier redemption, computed using a year of 360 days comprised of twelve 30-day months. Interest on each Bond shall accrue from the Interest Payment Date for the Bonds next preceding the date of authentication and delivery thereof, unless (i) it is authenticated after a Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest thereon shall be payable from such Interest Payment Date; or (ii) it is authenticated prior to the close of business on the first Record Date, in which event interest thereon shall be payable from the Delivery Date; provided, however, that if at the time of authentication of any Bond interest thereon is in default, interest thereon shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment, from the Delivery Date.

Section 2.5. Place and Form of Payment. Principal of, premium, if any, and interest on the Bonds shall be payable 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 by check of the Fiscal Agent upon presentation and surrender thereof at the Principal Office of the Fiscal Agent, or at the designated office of any successor Fiscal 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. Such interest shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Fiscal Agent on or before the applicable Record

Date from an Owner of \$1,000,000 or more in principal amount of the Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States designated by such Owner.

Section 2.6. Form of Bonds. The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the forms attached hereto as Exhibit A, which forms are hereby approved and adopted as the form of such Bonds and of the certificate of authentication.

Notwithstanding any provision in this Indenture to the contrary, the District may, in its sole discretion, elect to issue the Bonds in book entry form.

Until definitive Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of this Indenture as definitive Bonds. If the District issues temporary Bonds, it shall execute and furnish definitive Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond may be surrendered to the Fiscal Agent at its office, without expense to the Owner, in exchange for a definitive Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds so surrendered shall be cancelled by the Fiscal Agent and shall not be reissued.

Section 2.7. Execution and Authentication. The Bonds shall be signed on behalf of the District by the manual or facsimile signature of the President of the Board of Trustees and by the manual or facsimile signature of the Clerk of the Board, or any duly appointed deputy clerk, in their capacity as officers of the District, and the seal of the District (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the Clerk of the Board. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed have been authenticated and delivered by the Fiscal Agent (including new Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or to lost, stolen, destroyed or mutilated Bonds), such Bonds shall nevertheless be valid and may be authenticated and delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A hereto shall be entitled to any right or benefit under this Indenture, and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Fiscal Agent.

Section 2.8. Bond Register. The Fiscal Agent will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in Section 2.9 below, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds as herein provided.

The District and the Fiscal Agent may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Section 2.9. Registration of Exchange or Transfer. Subject to the limitations set forth in the following paragraph, 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 office of the Fiscal Agent, accompanied by delivery of 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 the office of the Fiscal Agent for a like aggregate principal amount of Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, as applicable, of the same issue and 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 any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Section 2.10. Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond shall become mutilated, the District shall execute, and the Fiscal Agent shall authenticate and deliver, a new Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be cancelled by the Fiscal Agent pursuant to Section 10.1 hereof. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the District and the Fiscal Agent shall be given, the District shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond of like tenor, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits hereof with all other Bonds issued hereunder. The Fiscal Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds.

Section 2.11. Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and

the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

Section 2.12. Book-Entry System.

- (a) All Bonds shall be initially issued in the form of a separate single certificated fully registered Bond for each maturity date of the Bonds. Upon initial issuance, the ownership of each Bond shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC. Except as provided in Section 2.12(d) hereof, all Outstanding Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of DTC.
- With respect to Bonds registered in the Bond Register in the name of Cede & Co., as nominee of DTC, the District and the Fiscal Agent shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown in the Bond Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The District and the Fiscal Agent may treat and consider the person in whose name each Bond is registered in the Bond Register as the holder and absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Fiscal Agent shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Bond Register, as provided in Section 2.8 hereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register, shall receive a certificated Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by DTC to the Fiscal Agent of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the word "Cede & Co." in this Indenture shall refer to such new nominee of DTC.
- (c) The delivery of the Representation Letter by the District and the Fiscal Agent shall not in any way limit the provisions of Section 2.12(b) hereof or in any other way impose upon the District or the Fiscal Agent any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the Bond Register. The Fiscal Agent shall take all action necessary for all representations in the Representation Letter with respect to the Fiscal Agent to be complied with at all times.
- (d) (i) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the District and the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law.

- (ii) The District, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the District determines that:
- (A) DTC is unable to discharge its responsibilities with respect to the Bonds, or
- (B) a continuation of the requirement that all Outstanding Bonds be registered in the Bond Register in the name of Cede & Co., or any other nominee of DTC, is not in the best interest of the beneficial owners of such Bonds.
- (iii) Upon the termination of the services of DTC with respect to the Bonds pursuant to subsection 2.12(d)(ii)(B) hereof, or upon the discontinuance or termination of the services of DTC with respect to the Bonds pursuant to subsection 2.12(d)(i) or subsection 2.12(d)(ii)(A) hereof after which no substitute securities depository willing to undertake the functions of DTC hereunder can be found which, in the opinion of the District, is willing and able to undertake such functions upon reasonable and customary terms, the District is obligated to deliver Bond certificates, as described in this Indenture and the Bonds shall no longer be restricted to being registered in the Bond Register in the name of Cede & Co. as nominee of DTC, but may be registered in whatever name or names DTC shall designate to the Fiscal Agent in writing, in accordance with the provisions of this Indenture.
- (e) Notwithstanding any other provisions of this Indenture to the contrary, as long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal or, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Representation Letter.

ARTICLE III

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

- Section 3.1. Creation of Funds; Application of Proceeds. There is hereby created and established and shall be maintained by the Fiscal Agent the following funds and accounts:
- (a) The Community Facilities District No. 90-2 (Talega) Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).
- (b) The Community Facilities District No. 90-2 (Talega) Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).
- (c) The Community Facilities District No. 90-2 (Talega) Special Reserve Fund (the "Special Reserve Fund").
- (d) The Community Facilities District No. 90-2 (Talega) Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Project Account.)

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of this Article III and shall disburse investment earnings thereon in accordance with the provisions of Section 3.10 hereof.

In connection with the issuance of the Bonds, the Fiscal Agent, at the written direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds.

- (e) The proceeds of the sale of the Bonds in the amount of \$43,238,500.44 (consisting of the principal amount of \$44,980,000.00, less net original issue discount of \$619,787.70, less Underwriter's discount of \$202,410.00, less \$919,301.86 which the Underwriter will transfer prior to closing to the Insurer (consisting of \$875,825.91 comprising the premium for the Insurance Policy and \$43,475.95 comprising the premium for the Reserve Surety Bond), plus \$6,511,708.22 received from prior funds, shall be received by the Fiscal Agent on behalf of the District and deposited and transferred as follows:
- (i) \$251,746.70 shall be deposited in the Costs of Issuance Account for disbursement in accordance with Section 3.9 below;
- (ii) \$1,202,630.42 shall be deposited in the Project Account for disbursement in accordance with Section 3.9 below;
- (iii) \$43,165,689.19 shall be transferred to the Escrow Bank for deposit in the escrow fund established under the Escrow Agreements for disbursement in accordance with the Escrow Agreements for the redemption in full of the Prior Bonds;
- (iv) \$104,323.84 shall be transferred to the Administrative Expense Account of the Special Tax Fund to be disbursed in accordance with Section 3.3 below;
- $$\rm (v)$$ \$3,093,554.06 shall be transferred to the Special Reserve Fund to be disbursed in accordance with Section 3.8 below; and
- (vi) \$1,932,264.45 shall be deposited in the Reserve Account of the Special Tax Fund to be disbursed in accordance with Section 3.6 below. Additionally, the Fiscal Agent shall hold the Reserve Policy and shall draw upon it pursuant to the terms thereof and in accordance with Section 3.6 below.

In addition, the Fiscal Agent shall receive confirmation that the Underwriter, as purchaser of the Bonds, shall remit the amount of \$875,825.91 comprising the premium for the Insurance Policy and \$43,475.95 comprising the premium for the Reserve Surety Bond directly to the Insurer in payment of its Insurance Policy and Reserve Policy premiums associated with the Bonds.

The Fiscal Agent may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

Section 3.2. Deposits to and Disbursements from Special Tax Fund. The Fiscal Agent shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund in accordance with the terms of the Indenture to be held by the Fiscal

Agent. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (a) The Administrative Expense Account of the Special Tax Fund;
- (b) The Interest Account of the Special Tax Fund;
- (c) The Principal Account of the Special Tax Fund;
- (d) The Redemption Account of the Special Tax Fund;
- (e) The Reserve Account of the Special Tax Fund;
- (f) The Rebate Fund; and
- (g) The Special Reserve Fund.

At the maturity of all of the Bonds and, after all principal and interest then due on the Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Section 3.3. Administrative Expense Account of the Special Tax Fund. The Fiscal Agent shall not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District; provided, however, that the total deposit made to the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the District.

Section 3.4. Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds will be made when due, after making the transfer required by Section 3.3, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds on said Interest Payment Date and any installment of interest on the Bonds

due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2006, shall equal the principal payment due on the Bonds maturing on such September 1 and any principal payment on the Bonds due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds as the same become due at maturity.

Section 3.5. Redemption Account of the Special Tax Fund.

- (a) Before each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Interest Account and the Principal Account of the Special Tax Fund as required by Section 3.4 hereof, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed, to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to Section 3.6 below. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in Section 4.1(c) hereof and in any Supplemental Indenture for such Term Bonds.
- (b) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to Section 3.4 above and to the Redemption Account for Sinking Fund Payments then due pursuant to subparagraph (a) of this Section, and in accordance with the District's election to call Bonds for optional redemption as set forth in Section 4.1(a) hereof or for mandatory redemption from Special Tax prepayments as set forth in Section 4.1(b), the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.
- (c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to Section 4.1(a) hereof. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the

Interest Account of the Special Tax Fund for the payment of interest on the Bonds on the next following Interest Payment Date.

- Section 3.6. Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. Notwithstanding any provision hereof to the contrary, the amounts in the Reserve Account shall be applied as follows:
- (a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to Section 3.7 hereof upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.
- (b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in Sections 3.4, 3.5 and 3.7 hereof, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.
- (c) In connection with an optional redemption of the Bonds hereunder in accordance with any Supplemental Indenture, or a partial defeasance of the Bonds in accordance with Section 9.1 hereof, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds, amounts in the Reserve Account may be applied, upon direction of the District, to pay the principal of and interest due on the Bonds in the final Bond Year. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each March 1 and September 1 and transferred to the Interest Account of the Special Tax Fund.
- (d) The District may at any time elect to maintain the Reserve Requirement in whole or in part by obtaining a Reserve Credit Facility. In the case of such an election, the District will direct the Fiscal Agent to acquire such Reserve Credit Facility and to pay from money in the

Reserve Account the costs associated with the acquisition of the Reserve Credit Facility. Any money in the Reserve Account after the acquisition of such Reserve Credit Facility and payment of the appropriate costs shall be transferred to or at the direction of the Agency for its lawful purposes. In the event any such Reserve Credit Facility is so acquired, the Fiscal Agent shall draw on it in accordance with its terms (i) when and if moneys are needed pursuant to the provisions of this subsection (d); provided, however, that the Fiscal Agent must make demand at least five (5) days prior to the date that such funds are needed; and (ii) prior to the stated maturity of such Reserve Credit Facility. In the event the Reserve Requirement is satisfied by a combination of cash and a Reserve Credit Facility, the Fiscal Agent shall draw down completely on the cash on deposit for such purpose in the Reserve Account before any demand is made on the Reserve Credit Facility.

- (e) The Reserve Account will initially be funded by the deposit of cash and the Reserve Policy in an amount equal to the Reserve Requirement. As long as the Reserve Policy shall be in full force and effect, the District and Fiscal Agent agree to comply with the following provisions:
- (i) In the event that moneys on deposit in the Interest Account and Principal Account, plus all amounts on deposit in and credited to the Reserve Account in excess of the amount of the Reserve Policy, are insufficient to pay the amount of principal and interest coming due, then on the later of: (A) one (1) day after receipt by the General Counsel of the Insurer of a demand for payment in the form attached to the Reserve Policy as Attachment 1 (the "Demand for Payment"), duly executed by the Fiscal Agent certifying that payment due under this Indenture has not been made to the Fiscal Agent; or (B) the payment date of the Bonds as specified in the Demand for Payment presented by the Fiscal Agent to the General Counsel of the Insurer, the Insurer will make a deposit of funds in an account with the Fiscal Agent or its successor, in New York, New York, or at such other address as the Fiscal Agent shall designate, sufficient for the payment to the Fiscal Agent, of amounts which then due to the Fiscal Agent under this Indenture (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Reserve Policy; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Reserve Policy, includes amounts available under a letter of credit, insurance policy, Reserve Policy or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.
- (ii) the Fiscal Agent shall, after submitting to the Insurer the Demand for Payment as provided in (i) above, and upon a written request therefore by the Insurer make available to the Insurer all records relating to the funds and accounts maintained under this Indenture.
- (iii) the Fiscal Agent shall, upon receipt of moneys received from the draw on the Reserve Policy, as specified in the Demand for Payment, credit the Reserve Account to the extent of moneys received pursuant to such Demand for Payment.
- (iv) the Reserve Account shall be immediately replenished following a payment by the Insurer and the Fiscal Agent shall allocate such moneys in the following priority: (A) principal and interest on the Reserve Policy and on the Additional Funding Instrument shall be paid from first available Net Taxes on a pro rata basis; (B) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Reserve Policy and the Additional Funding Instrument shall be deposited from next available Net Taxes.

The District may substitute any policy of insurance, letter of credit or surety bond in order to meet the Reserve Requirement provided that the following requirements are met:

- 1. A surety bond or insurance policy issued to the Fiscal Agent, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service with respect to the Bonds (a "municipal bond insurer") may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
- 2. A surety bond or insurance policy issued to the Fiscal Agent, by an entity other than a municipal bond insurer may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the form and substance of such instrument and the issuer thereof shall be approved by the Insurer.
- 3. An unconditional irrevocable letter of credit issued to the Fiscal Agent, by a bank may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the District and the Fiscal Agent, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
- 4. If such notice indicates that the expiration date shall not be extended, the District shall deposit in the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Requirement, or a portion thereof, on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Account credit instrument is replaced by a Reserve Account credit instrument meeting the requirements in any of 1-3 above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The District shall, in turn, direct the Fiscal Agent to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Account is fully funded in its required amount.
- 5. The use of any Reserve Account credit instrument pursuant to this paragraph shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the Insurer

- and in form and substance satisfactory to the Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).
- The obligation to reimburse the issuer of a Reserve Account credit instrument for any 6. fees, expenses, claims or draws upon such Reserve Account credit instrument shall be subordinate to the payment of debt service with respect to the Bonds. The right of the issuer of a Reserve Account credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Account. The Reserve Account credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Account credit instrument becomes insolvent or (b) the issuer of a Reserve Account credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Account credit instrument shall be subordinate to the cash replenishment of the Reserve Account.
- If (a) the revolving reinstatement feature described in the preceding paragraph is 7. suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the District shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal the Reserve Requirement with respect to all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Reserve Account credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Account credit instrument becomes insolvent, the District shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal to Reserve Requirement, or a portion thereof, on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety

bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence.

Section 3.7. Rebate Fund.

- (a) The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternative Penalty Account shall be established for each issue of Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds shall be governed by this Section 3.7 and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on such Bonds will not be adversely affected if such requirements are not satisfied.
- (i) <u>Rebate Account</u>. The following requirements shall be satisfied with respect to each subaccount of the Rebate Account:
- (A) Annual Computation. Within 55 days of the end of the fourth and the fifth Bond Year for each issue of Bonds and each fifth Bond Year thereafter, the District shall calculate or cause to be calculated the amount of rebatable arbitrage for each issue of Bonds to which this Section 3.7 is applicable, in accordance with Section 148(f)(2) of the Code and Section 1.148 3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (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 Rebate Regulations (the "Rebatable Arbitrage"). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.
- Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate for each issue, upon the written direction of an Authorized Representative of the District, an amount shall be deposited to each subaccount of the Rebate Account by the Fiscal Agent from any funds so designated by the District if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated by or on behalf of the District in accordance with (A) of this Subsection (a)(i) with respect to each issue of Bonds to which this Section 3.7 is applicable. In the event that immediately following any transfer required by the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit to the credit of the applicable subaccount of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative of the District, the Fiscal Agent shall withdraw the excess from the appropriate subaccount of the Rebate Account and then credit the excess to the Special Tax Fund.

(C) <u>Payment to the Treasury</u>. The Fiscal Agent shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account,

(X) Not later than 60 days after the end of (A) the fifth Bond Year for each issue of Bonds to which this Section 3.7 is applicable, and (B) 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 each issue of Bonds, as applicable; and

(Y) Not later than 60 days after the payment or redemption of all of an issue of Bonds, as applicable, 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 the 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)(i) 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.

(ii) Alternative Penalty Account.

(A) <u>Six-Month Computation</u>. If the 1½% Penalty has been elected for an issue of Bonds, within 85 days of each particular Six-Month Period, the District shall determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. The District shall obtain expert advice in making such determinations.

Month Period, the Fiscal Agent, at the written direction of an Authorized Representative of the District, shall deposit an amount in the appropriate subaccounts of the Alternative Penalty Account from any source of funds held by the Fiscal Agent pursuant to this Indenture and designated by the District in such written directions or provided to it by the District, if and to the extent required, so that the balance in each subaccount of the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in Subsection (a)(ii)(A) above. In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by Subsection (C) below, the Fiscal Agent, at the written direction of an Authorized Representative of the District, shall withdraw the excess from the applicable subaccount of the Alternative Penalty Account and credit the excess to the Special Tax Fund.

(C) <u>Payment to the Treasury</u>. The Fiscal Agent shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in a subaccount of the Alternative Penalty Account, specified by the District in writing

not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed with respect to any issue of Bonds in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from a subaccount of the Alternative Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District shall calculate the amount of such deficiency and direct the Fiscal Agent, in writing, to deposit an amount equal to such deficiency into such subaccount of the Alternative Penalty Account from any funds held by the Fiscal Agent pursuant to this Indenture and designated by the District in such written directions prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(2) shall be made to the Internal Revenue Service, 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.

- (b) <u>Disposition of Unexpended Funds</u>. Any funds remaining in the Accounts of the Rebate Fund with respect to an issue of Bonds after redemption and payment of such issue and after making the payments described in Subsection (a)(i)(C) or (a)(ii)(C) (whichever is applicable), shall be withdrawn by the Fiscal Agent at the written direction of the District and utilized in any lawful manner pursuant to the Act.
- (c) <u>Survival of Defeasance and Final Payment</u>. Notwithstanding anything in this Section or this Indenture to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance and final payment of any Bonds with respect to which an Account has been created in the Rebate Fund.
- (d) <u>Amendment Without Consent of Owners</u>. This Section 3.7 may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any issue of Bonds issued on a tax exempt basis.
- (e) <u>Fiscal Agent Responsibility</u>. The Fiscal Agent shall be deemed conclusively to have complied with its obligations with respect to the Rebate Fund and any amounts required to be rebated to the United States Treasury hereunder by following the directions given by the District pursuant to this section, and no other obligations of the Fiscal Agent shall be implied hereunder.
- Section 3.8. Special Reserve Fund. After making the transfers required by Sections 3.3, 3.4, 3.5, 3.6 and 3.7 hereof, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund, if any, to the Special Reserve Fund, other than amounts in the Special Tax Fund which the District has deemed available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to Section 5.2(b) hereof. Moneys deposited in the Special Reserve Fund shall be transferred by the Fiscal Agent, at the written direction of the District, (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses. In the event

unexpended amounts remain on deposit in the Special Reserve Fund after the foregoing transfers, if any, the District shall apply such unexpended amounts to, in its sole discretion, either (i) pay Project Costs, (ii) to reduce the next fiscal year's Special Tax levy by depositing such amount in the Special Tax Fund, or (iii) for any other lawful purpose of the District.

The amounts in the Special Reserve Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose in the manner described in this Section 3.8. In the event that the District reasonably expects to use any portion of the moneys in the Special Reserve Fund to pay debt service on any Outstanding Bonds, upon the written direction of the District, the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Special Reserve Fund shall be invested in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Section 3.9. Acquisition and Construction Fund.

- (a) The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance. Amounts for Project Costs or Costs of Issuance shall be disbursed by the Fiscal Agent from the Project Account or the Costs of Issuance Account, as applicable, in the Acquisition and Construction Fund pursuant to a Certificate of the Deputy Superintendent, Administration, substantially in the form of Exhibit B hereto, which must be submitted in connection with each requested disbursement.
- (b) Upon receipt of a Certificate of the Deputy Superintendent, Administration that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Special Reserve Fund.
- Section 3.10. Investments. Moneys held in any of the Funds, Accounts and Subaccounts under this Indenture shall be invested at the written direction of an Authorized Representative of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, Special Reserve Fund, and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in Section 3.6, and (iii) all other investment earnings shall be deposited in the Acquisition and Construction Fund until the balance therein equals zero and thereafter shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under this Indenture may be invested by the Fiscal Agent on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

- (a) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.
- (b) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything herein to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.
- (c) One half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Fiscal Agent, and one half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an Investment Agreement to the final maturity of Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with Section 3.6 hereof; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds shall mature later than the respective final maturity date of the Bonds to which such Subaccount relates. Notwithstanding anything herein to the contrary, amounts in the Reserve Fund on the Delivery Date for the Bonds shall not be invested at vields greater than those set forth in the Tax Certificate.
- (d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to Section 3.7 hereof.
- (e) In the absence of written investment directions from the District, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (2)(e) of the definition thereof.

The Fiscal Agent shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value thereof and marked to market at least annually. In making any valuations of investments hereunder, the Fiscal Agent may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything herein to the contrary, the Fiscal Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of this Indenture. The Fiscal Agent may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments. Any Authorized Investments that are registrable securities shall be registered in the name of the Fiscal Agent.

For investment purposes, the Fiscal Agent may commingle the funds and accounts established hereunder (other than the Rebate Fund) but shall account for each separately.

The Fiscal Agent or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Fiscal Agent hereunder.

The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent hereunder.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.1. Redemption of Bonds.

(a) Optional Redemption. The Bonds maturing on or before September 1, 2016, are not subject to optional redemption prior to their maturity dates. The Bonds maturing on or after September 1, 2017 may be redeemed before maturity at the option of the District, from any source of funds, on any Interest Payment Date on or after September 1, 2016 as a whole, or in part by lot from such maturities as are selected by the District. The Bonds redeemed prior to maturity, if any, will be redeemed at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

In the event the District elects to redeem Bonds as provided above, the District 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.

(b) <u>Mandatory Redemption From Special Tax Prepayments</u>. The Bonds are subject to mandatory redemption prior to their stated maturities, on any Interest Payment Date on or after September 1, 2016, from moneys derived by the District from Special Tax prepayments, selected among maturities as determined by the District in its sole discretion (and by lot within any one maturity), in integral multiples of \$5,000, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2029 (the "2029 Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 2027 and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2029

Sinking Fund Redemption Date (September 1)	Sinking Payments	
2027	\$2,650,000	
2028	2,840,000	

3,045,000

 2029^{\dagger}

The Bonds maturing on September 1, 2032 (the "2032 Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 2030 and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2032

Sinking Fund Redemption Date (September 1)	Sinking Payments
2030	\$3,255,000
2031	3,485,000
2032^{\dagger}	3,730,000

^{*} Final Maturity

If during the Fiscal Year immediately preceding one of the redemption dates specified in (c) above the District purchases Bonds of such maturities, at least 45 days prior to the redemption date the District shall notify the Fiscal Agent as to the principal amount purchased and the amount of Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the Bonds. All Bonds purchased pursuant to this subsection shall be cancelled pursuant to Section 9.1 hereof.

In the event of a partial optional or mandatory redemption of the Bonds maturing on September 1, 2029 or September 1, 2032, each of the remaining Sinking Fund Payments for such Term Bonds, as described above, will be reduced as determined by the District.

Section 4.2. 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 an integral multiple thereof. In selecting portions of such Bonds for redemption, the Fiscal Agent shall treat such Bonds as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000. The Fiscal Agent shall promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption.

^{*} ____

Final Maturity

Notice of Redemption. When Bonds are due for redemption under Section 4.3. Section 4.1 above, the Fiscal Agent shall give notice, in the name of the District, of the redemption of such Bonds; provided, however, that a notice of a redemption to be made from other than from Sinking Fund Payments shall be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the Bonds to be redeemed. Such notice of redemption shall (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds, or all the Bonds of one maturity, are to be redeemed, the bond numbers of such issue 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 redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Fiscal Agent. 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 shall 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 or the original purchaser of any Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice 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 herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice shall be given by the Fiscal Agent as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption shall be sent not later than the date that notice of redemption is mailed to the Bondowners pursuant to the first paragraph of this Section by registered or certified mail or overnight delivery service to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds as determined by Fiscal Agent and to one or more national information services that the Fiscal Agent determines are then in the business of disseminating notice of redemption of obligations such as the Bonds.

Upon the payment of the redemption price of any Bonds being redeemed, each check or other transfer of funds issued for such purpose shall to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Section 4.4. Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the District shall execute and the Fiscal Agent shall authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds of authorized denominations equal

in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity.

- Section 4.5. Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in Section 4.3 hereof, 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 shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in this Indenture, anything in this Indenture or in the Bonds to the contrary notwithstanding;
- (b) Upon presentation and surrender thereof at the office of the Fiscal Agent, the redemption price of such Bonds shall be paid to the Owners thereof;
- (c) As of the redemption date the Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds, or portions thereof, shall cease to bear further interest; and
- (d) As of the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of this 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.
- Section 4.6. Purchase of Bonds by District. In lieu, or partially in lieu, of optional or mandatory sinking fund redemption, the District may elect, prior to the selection of Bonds for redemption by the Fiscal Agent, to instruct the Fiscal Agent to purchase Bonds at public or private sale at such prices as the District may in its discretion determine; provided that the purchase price thereof (including brokerage or other expenses) shall not exceed the principal amount thereof plus accrued interest to the purchase date and, in the case of purchase with funds in an optional redemption account, applicable premium.

ARTICLE V

COVENANTS AND WARRANTY

- **Section 5.1. Warranty**. The District shall preserve and protect the security pledged hereunder to the Bonds against all claims and demands of all persons.
- Section 5.2. Covenants. So long as any of the Bonds issued hereunder are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and this Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary 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 and other amounts deposited to the Special Tax Fund:
- (a) <u>Punctual Payment: Against Encumbrances</u>. The District covenants that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Fiscal Agent, and the District shall have no beneficial right or interest in the amounts so deposited except as

provided by this Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth herein, 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 hereunder, 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 this Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created hereunder will be made, all in strict conformity with the terms of the Bonds and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and of the Bonds issued hereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in this Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, except bonds refunding the Bonds. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

- Year 1999-2000 and in each Fiscal Year thereafter and, so long as any Bonds issued under this Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available by the District for such purpose, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.
- Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and (ii) 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 for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in an amount in excess of \$10,000 so long as (1) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (2) with respect to the Bonds,, the District is not in default in the payment of the principal of or interest on the Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds.

The District covenants that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

- (d) <u>Payment of Claims</u>. 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 Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds then Outstanding; provided that nothing herein contained 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.
- (e) <u>Books and Accounts</u>. 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 levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than 10% of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.
- (f) <u>Federal Tax Covenants</u>. Notwithstanding any other provision of this Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, 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:
- (i) <u>Private Activity</u>. 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 issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code;
- (ii) <u>Arbitrage</u>. 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 issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code;
- (iii) <u>Federal Guaranty</u>. 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 issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code;
- (iv) <u>Information Reporting</u>. 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;
- (v) <u>Hedge Bonds</u>. 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 issued on a tax-exempt basis for federal income tax purposes 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; and
- (vi) <u>Miscellaneous</u>. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery

Date by the District in connection with the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein, including payment of amounts required to pay the District's pro rata share of any rebate amounts owing to the United States on the Bonds.

- (vii) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any 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.
- (viii) <u>Subsequent Opinions</u>. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation ("SYCR"), where such opinion is required in connection with a change or amendment to this Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.
- determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District hereby determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this Section 5.2(g) would interfere with the timely retirement of the Bonds. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District.
- (h) <u>Covenants to Defend</u>. The District covenants that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in Section 5.2(g) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.
- (i) <u>Limitation on Right to Tender Bonds</u>. The District hereby covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds in full payment or partial payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds when due.
- Section 5.3. Continuing Disclosure and Reporting Requirements. The District covenants to comply with the terms of the Continuing Disclosure Agreement executed by it on the Delivery Date with respect to compliance with Rule 15c2-12.

Section 5.4. Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Resolution and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Indenture.

ARTICLE VI

AMENDMENTS TO INDENTURE

- Section 6.1. Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District and Fiscal Agent may from time to time, and at any time, without notice to or consent of any of the Bondowners, but with the written consent of the Insurer so long as the Insurance Policy is in full force and effect, enter into Supplemental Indentures for any of the following purposes:
- (a) to cure any ambiguity, to correct or supplement any provisions herein which may be inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under this Indenture or in any additional resolution or order, provided that such action is not materially adverse to 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 this Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with this Indenture as theretofore in effect or which further secure Bond payments;
- (c) to provide for the issuance of any bonds issued to refund the Bonds, and to provide the terms and conditions under which such refunding bonds may be issued, subject to and in accordance with the provisions of this Indenture;
- (d) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, 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 then Outstanding; or
- (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 Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under Section 5.2(g) hereof; or
- (f) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Bondowners.
- Section 6.2. Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in Section 6.1, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this

Indenture; provided, however, that nothing herein 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 over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture 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 Supplemental Indenture and shall state that a copy thereof is on file at the office of the Fiscal Agent for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds 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 a majority in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds 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 and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

Section 6.3. Notation of Bonds; Delivery of Amended Bonds. After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond at such effective date and presentation of his Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds. If the District shall so determine, new Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond at such effective date such new Bonds shall be exchanged at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may

select and designate for that purpose, without cost to each Owner of Outstanding Bonds, upon surrender of such Outstanding Bonds.

Section 6.4. Notice to Rating Agencies. Copies of any amendments pursuant to Article XI shall be sent to Standard and Poor's and Moody's.

ARTICLE VII

FISCAL AGENT

Section 7.1. Fiscal Agent. U.S. Bank National Association shall be the Fiscal Agent for the Bonds unless and until another Fiscal Agent is appointed by the District hereunder. The District may, at any time, with the prior written consent of the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, appoint a successor Fiscal Agent satisfying the requirements of Section 7.2 below for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent hereunder and to allocate, use and apply the same as provided in this Indenture.

The Fiscal Agent is hereby authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with Section 2.5 above, interest payments to the Bondowners, to select Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is hereby authorized to pay the principal of and premium, if any, on the Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds presented to it for such purposes, to provide for the cancellation of Bonds all as provided in this Indenture, and to provide for the authentication of Bonds, and shall perform all other duties assigned to or imposed on it as provided in this Indenture; provided, however, that no duties of the Fiscal Agent shall be implied hereunder. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds paid, discharged and cancelled by it.

The Fiscal Agent is hereby authorized to redeem the Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent shall cancel all Bonds upon payment thereof in accordance with the provisions of Section 10.1 hereof.

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Fiscal Agent and its officers, directors and employees harmless against costs, claims expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties hereunder. The foregoing obligation of the District to indemnify the Fiscal Agent shall survive the removal or resignation of the Fiscal Agent or the discharge of the Bonds.

Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Fiscal Agent shall take effect until a successor, acceptable to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, shall be appointed.

Section 7.2. Removal of Fiscal Agent. The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent, and to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto with the prior written consent of the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder; provided that any such successor, other than the Fiscal Agent, shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. The Fiscal Agent may also be removed at any time at the request of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, for any material breach of the Fiscal Agent's obligations hereunder. Any removal shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent and notice being sent by the successor Fiscal Agent to the Bondowners of the successor Fiscal Agent's identity and address.

Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Fiscal Agent shall take effect until a successor, acceptable to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, shall be appointed.

Section 7.3. Resignation of Fiscal Agent. The Fiscal Agent may at any time resign by giving written notice to the District and the Insurer and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Fiscal Agent. Upon receiving such notice of resignation, the District shall promptly appoint a successor Fiscal Agent satisfying the criteria in Section 7.2 above by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent.

Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Fiscal Agent shall take effect until a successor, acceptable to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, shall be appointed.

Section 7.4. Liability of Fiscal Agent. The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of this Indenture, the Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth herein, in the Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent shall be under no responsibility or duty with respect to the issuance of the Bonds for value. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

The Fiscal Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, certificate of an Independent Financial Consultant or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Indenture the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Fiscal Agent shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it hereunder, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for such funds as it shall actually receive. No provision in this Indenture shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

The Fiscal Agent shall not be deemed to have knowledge of any default or event of default until an officer at the Fiscal Agent's corporate trust office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Fiscal Agent shall have received written notice thereof at its corporate trust office.

The Fiscal Agent shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Before taking any action under Article VIII hereof the Fiscal Agent may require indemnity satisfactory to the Fiscal Agent be furnished from any expenses and to protect it against any liability it may incur hereunder.

The immunities extended to the Fiscal Agent also extend to its directors, officers, employees and agents.

The Fiscal Agent shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of 25% (or other percentage provided for herein) in aggregate principal amount of Bonds Outstanding relating to the exercise of any right, power or remedy available to the Fiscal Agent.

The permissive right of the Fiscal Agent to do things enumerated in this Indenture shall not be construed as a duty.

The Fiscal Agent may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers.

The Fiscal Agent may become the Owner or pledgee of the Bonds with the same rights it would have if it were not Fiscal Agent.

The Fiscal Agent shall perform such duties and only such duties as are specifically set forth in this Indenture and no implied duties or obligations shall be read into this Indenture against the Fiscal Agent.

Section 7.5. Merger or Consolidation. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

ARTICLE VIII

EVENTS OF DEFAULT; REMEDIES

- **Section 8.1.** Events 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, by declaration or otherwise;
- (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) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in this Indenture, the Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Owners of 25% in aggregate principal amount of the Outstanding Bonds.

The District agrees to give notice to the Fiscal Agent, and to the Insurer so long as the Insurance Policy is in full force and effect, immediately upon the occurrence of an event of default under (a) or (b) above and within 30 days of the District's knowledge of an event of default under (c) above.

Section 8.2. Remedies of Owners. Upon the occurrence of an Event of Default, the Fiscal Agent may, at the written direction of the Insurer so long as the Insurance Policy is in full force and effect, pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Fiscal Agent under or with respect to this Indenture, including:

- (a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;
- (b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- (c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and if indemnified to its satisfaction, the Fiscal Agent shall be obligated to exercise such one or more of the rights and powers conferred by this Article 8, as the Fiscal Agent, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds.

No remedy herein conferred upon or reserved to the Fiscal Agent or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Section 8.3. Application of Revenues and Other Funds After Default. All amounts received by the Fiscal Agent pursuant to any right given or action taken by the Fiscal Agent under the provisions of this Indenture relating to the Bonds shall be applied by the Fiscal Agent in the following order upon presentation of the several Bonds:

<u>First</u>, to the payment of the fees, costs and expenses of the Fiscal Agent in declaring such Event of Default and in carrying out the provisions of this Article 8, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Fiscal Agent; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

- (a) first to the payment of all installments of interest on the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,
- (b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and
- (c) third, to the payment of interest on overdue installments of principal and interest on the Bonds on a pro rata basis based on the total amount then due and owing.

Power of Fiscal Agent to Control Proceedings. In the event that the Fiscal Agent, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, upon the written direction of the Insurer so long as the Insurance Policy is in full force and effect, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Fiscal Agent shall not, unless there no longer continues an Event of Default, and without the written consent of the Insurer so long as the Insurance Policy is in full force and effect, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Fiscal Agent for the equal benefit and protection of all Owners of Bonds similarly situated and the Fiscal Agent is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Fiscal Agent as such attorney-in-fact.

Section 8.5. Appointment of Receivers. Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Fiscal Agent and of the Owners of the Bonds under this Indenture, the Fiscal Agent shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

Section 8.6. Non-Waiver. Nothing in this Article 8 or in any other provision of this 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 herein provided, out of the Net Taxes and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Fiscal Agent or any Owners 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; provided however that so long as the Insurance Policy is in full force and effect, the Fiscal Agent shall not waive any default of breach of duty or contract without the written consent of Insurer. No delay or omission of the Fiscal Agent or any Owner of any of the Bonds 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 Fiscal Agent or the Owners by the Act or by this Article 8 may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent or the Owners, as the case may be.

Section 8.7. Limitations on Rights and Remedies of Owners. No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for

any remedy under or upon this Indenture, unless (a) such Owner shall have previously given to the Fiscal Agent written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Fiscal Agent to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Fiscal Agent indemnity reasonably acceptable to the Fiscal Agent against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Fiscal Agent shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Fiscal Agent.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

Section 8.8. Termination of Proceedings. In case the Fiscal Agent shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Fiscal Agent and the Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Fiscal Agent shall continue as if no such proceedings had been taken.

Section 8.9. Insurer's Rights. Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Fiscal Agent for the benefit of the Owners under this Indenture so long as the Insurance Policy is in full force and effect.

Notwithstanding anything herein in determining whether an Event of Default has occurred in the due and punctual payment of principal of or interest on the Bonds, no effect shall be given to payments made under the Insurance Policy.

For all purposes of provisions of this Indenture governing events of default and remedies thereof, except the giving of notice of default to Owners, the Insurer shall be deemed to be to sole holder of the Bonds so long as the Insurance Policy is in full force and effect.

ARTICLE IX

DEFEASANCE

Section 9.1. 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 this Indenture or any Supplemental Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under this Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to this Section, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent shall pay over or deliver to the District's general fund all money or securities held by it pursuant to this Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the 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, 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 (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with the Fiscal Agent or another escrow bank appointed by the District, in trust, noncallable Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under this Indenture and any Supplemental Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owner of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in Section 5.2(f) or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant 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, premium, if any, and interest on all Outstanding Bonds to be defeased in accordance with this Section, 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 this Indenture and any applicable Supplemental Indenture. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Upon a defeasance, the Fiscal Agent, upon request of the District, shall release the rights of the Owners of such Bonds which have been defeased under this Indenture and any Supplemental 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 hereunder 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 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.

Notwithstanding anything in this Indenture to the contrary, in the event that the principal and/or interest due with respect to the Bonds shall be paid by Insurer pursuant to the Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the assignment and pledge of the Net Taxes and all covenants, agreements and other obligations of the District to the Owners shall continue to exist and shall run to the benefit of Insurer, and Insurer shall be subrogated to the rights of such Owners.

Section 9.2. Condition for the Issuance of Additional Indebtedness. The District may issue additional indebtedness payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds solely for the purpose of refunding the Bonds.

ARTICLE X

INSURANCE PROVISIONS

Section 10.1. Claims Under Insurance Policy; Payments by and to Insurer. As long as the Insurance Policy shall be in full force and effect, the District and the Fiscal Agent agree to comply with the following provisions:

(a) at least one (1) day prior to all Interest Payment Dates, the Fiscal Agent will determine whether there will be sufficient funds in the funds and accounts established hereunder to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Fiscal Agent determines that there will be insufficient funds in such funds and accounts, the Fiscal Agent shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Fiscal Agent has not so notified the Insurer one (1) day prior to an Interest

Payment Date, the Insurer will make payments of principal or interest due on the Bonds on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Fiscal Agent;

- (b) the Fiscal Agent shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books maintained by the Fiscal Agent and all records relating to the funds and accounts maintained under this Indenture;
- (c) the Fiscal Agent shall provide the Insurer and the Insurance Trustee with a list of Owners of Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks to the Owners of Bonds entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Owners of Bonds entitled to receive full or partial principal or payments from the Insurer;
- (d) the Fiscal Agent shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of Bonds entitled to receive the payment of principal or interest with respect thereto from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Bond Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Fiscal Agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Fiscal Agent who shall note on such Bonds the portion of the principal paid by the Fiscal Agent and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal;
- (e) in the event that the Fiscal Agent has actual notice that any payment of principal or interest on a Bond which has become due for payment and which is made to an Owner of Bonds by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Fiscal Agent shall, at the time the Insurer is notified, notify all Certificate Owners that in the event that any Bond Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Fiscal Agent shall furnish to the Insurer its records evidencing the payments of principal and interest on the Bonds which have been made by the Fiscal Agent, and subsequently recovered from Owners of Bonds and the dates on which such payments were made; and
- (f) in addition to those rights granted the Insurer under this Indenture, the Insurer shall, to the extent it makes payment of principal or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Fiscal Agent shall note the Insurer's rights as subrogee on the registration books maintained by the Fiscal

Agent upon receipt from the Insurer of proof of the payment of interest on the Bonds to the Owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Fiscal Agent shall note the Insurer's rights as subrogee on the Bond Registrar maintained by the Fiscal Agent upon surrender of the Bonds by the Owners thereof together with proof of the payment of principal thereof.

- **Section 10.2.** Consent of Insurer. Unless otherwise provided in this Indenture, Insurer's consent shall be required for initiation or approval of any action which requires Owner consent.
- Section 10.3. Effect of Actions on Owners. Notwithstanding any other provision of this Indenture, in determining whether the rights of the Owners shall be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Fiscal Agent shall consider the effect on the Owners as if there were no Insurance Policy.
- Section 10.4. Reorganization Plan Acceptable to Insurer. Any reorganization or liquidation plan with respect to the District must be acceptable to Insurer. In the event of any reorganization or liquidation, Insurer shall have the right to vote on behalf of all Owners of Insurer-insured Bonds absent a default by Insurer under the Insurance Policy insuring such Bonds.
- Section 10.5. Insurer As Third Party Beneficiary. To the extent that this Indenture confers upon or gives or grants to Insurer any right, remedy or claim under or by reason of this Insurer is explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.
- **Section 10.6.** Notices To Be Given To Insurer. So long as the Insurance Policy is in full force and effect, the District or the Fiscal Agent (as to item (a) and (e) only), as applicable, shall furnish to Insurer:
- (a) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;
- (b) Notice of the downgrading by any rating agency of the District's underlying public rating, or the underlying rating on the Bonds, to "non-investment grade;"
 - (c) Notice of any rate covenant violation with respect to the Bonds;
- (d) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended; and
- (e) Such additional information as Insurer may reasonably request from time to time.

The Fiscal Agent or District, as applicable, shall notify Insurer of any failure of the District to provide relevant notices, certificates, or other similar documents.

Section 10.7. Reimbursement of Expenses. The District shall pay or reimburse the Insurer for any and all charges, fees, costs, and expenses that the Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under the Indenture; (ii) the pursuit of any remedies hereunder, under

the Indenture, or otherwise afforded by law or equity; (iii) any amendment, waiver, or other action with respect to or related to this Indenture whether or not executed or completed; (iv) the violation by the District of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Insurer to cure defaults of the District under this Indenture; or (vi) any litigation or other dispute in connection with this Indenture, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of this Indenture. The obligation of the District to the Insurer shall survive discharge and termination of this Indenture.

ARTICLE XI

MISCELLANEOUS

- **Section 11.1.** Cancellation of Bonds. All Bonds surrendered to the Fiscal Agent for payment upon maturity or for redemption shall be upon payment therefor, and any Bond purchased by the District as authorized herein and delivered to the Fiscal Agent for such purpose shall be, cancelled forthwith and shall not be reissued. The Fiscal Agent shall destroy such Bonds, and, upon request of the District, furnish to the District a certificate of such destruction.
- Section 11.2. Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:
- (a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.
- (b) As to any Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Fiscal Agent shall be affected by any notice to the contrary.

Nothing contained in this Indenture shall be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters herein stated which the Fiscal Agent or the District may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in

respect of anything done or suffered to be done by the Fiscal Agent or the District in pursuance of such request or consent.

Section 11.3. Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Fiscal Agent after the date when such Outstanding Bonds become due and payable, shall be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent at the written request of the District or the Fiscal Agent shall, at the expense of the District, cause to be mailed by first class mail, postage prepaid, to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Section 11.4. Provisions Constitute Contract. The provisions of this Indenture shall constitute a contract between the District and the Bondowners and the provisions hereof shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Fiscal Agent, then the District, the Fiscal Agent and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds this Indenture shall be irrepealable, but shall be subject to modifications to the extent and in the manner provided in this Indenture, but to no greater extent and in no other manner.

Section 11.5. Future Contracts. Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Gross Taxes which is subordinate to the pledge hereunder, or which is payable from the general fund of the District or from taxes or any source other than the Gross Taxes and other amounts pledged hereunder.

Section 11.6. Further Assurances. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

Section 11.7. Severability. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application

of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture, the Bonds issued pursuant hereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

Section 11.8. Notices. Any notices required to be given to the District with respect to the Bonds or this Indenture shall be mailed, first class, postage prepaid, or personally delivered to the Deputy Superintendent, Administration of the Capistrano Unified School District, 32972 Calle Perfecto, San Juan Capistrano, California 92675, all notices to the Fiscal Agent in its capacity as Fiscal Agent shall be mailed, first class, postage prepaid, or personally delivered to the Fiscal Agent, U.S. Bank National Association, 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Services, and all notices to the Insurer shall be mailed, first class, postage prepaid, or personally delivered to the Insurer, Ambac Assurance Corporation, One State Street Plaza, New York, New York, Attention: Surveillance Department.

Section 11.9. General Authorization. The President of the Board of Trustees of the School District, Clerk of the Board of Trustees, the Secretary of the School District and the Deputy Superintendent, Administration of the School District are each hereby respectively authorized to do and perform from time to time any and all acts and things consistent with this Bond Indenture necessary or appropriate to carry the same into effect.

Section 11.10. Execution in Counterparts. This Bond Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties have executed and attested this Bond Indenture by their officers duly authorized as of the date and year first written above.

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

By: Marline MD rape

President of the Board of Trustees of the Capistrano Unified School District, acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

ATTEST:

Clerk of the Board of Trustees of the Capistrano Unified School District, acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

U.S. BANK NATIONAL ASSOCIATION, as Fiscal

Agent

Its: Authorized Officer

EXHIBIT A

FORM OF BOND

ø.

AND NO/100 DOLLARS

10.			⇒
	UNITED STATES	S OF AMERICA	
	STATE OF CA	ALIFORNIA	
	COUNTY OF	FORANGE	
OF THE	COMMUNITY FACILITI CAPISTRANO UNIFIED SERIES 2006 SPECIAL T	SCHOOL DISTRICT (TALEGA)
INTEREST RATE MATURITY DATE		DATED DATE	CUSIP NO.
<u></u>	September 1,	June 8, 2006	
REGISTERED OWN	ER: CEDE & CO.		

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) (the "District") situated in the County of Orange, State of California, FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Registered Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless (i) the date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest shall be payable from the Dated Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing September 1, 2006, at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Registered Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond

PRINCIPAL AMOUNT:

No

at the office of U.S. Bank National Association (the "Fiscal Agent"). Interest on this Bond shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, or in certain circumstances described in the Indenture by wire transfer to an account within the United States, to the Registered Owner hereof as of the close of business on the fifteenth day of the month preceding the month in which the Interest Payment Date occurs (the "Record Date") at such Registered Owner's address as it appears on the registration books maintained by the Fiscal Agent.

This Bond is one of a duly authorized issue of "Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds" (the "Bonds") issued in the aggregate principal amount of \$44,980,000 pursuant to the Mello Roos Community Facilities Act of 1982, as amended, being Sections 53311 et seq., of the California Government Code (the "Act") for the purpose of refunding the Prior Bonds, funding a reserve account and paying certain costs related to the issuance of the Bonds. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the Board of Trustees of the Capistrano Unified School District, acting in its capacity as the legislative body of the District (the "Legislative Body") on April 24, 2006 and a Bond Indenture dated as of June 1, 2006, between the District and the Fiscal Agent (the "Indenture"), and this reference incorporates the Indenture herein, and by acceptance hereof the Registered Owner of this Bond assents to said terms and conditions. The Indenture is adopted under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from the annual special taxes authorized under the Act to be levied and collected within the District (the "Special Taxes") and certain other amounts pledged to the repayment of the Bonds as set forth in the Indenture. Any amounts for the payment hereof shall be limited to the Special Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts deposited to the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances described in the Indenture it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds maturing on or before September 1, 2016 are not subject to optional redemption prior to their maturity dates. Subject to the limitations set forth below, the Bonds maturing on or after September 1, 2017 may be redeemed before maturity at the option of the District, from any source of funds, on any Interest Payment Date on or after September 1, 2016, in whole, or in part by lot from such maturities selected by the District, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

The Bonds are also subject to mandatory redemption prior to their stated maturities, on any Interest Payment Date on or after September 1, 2016, from moneys derived by the District from Special Tax prepayments, selected among maturities as determined by the District in its sole discretion (and by lot within any one maturity), in integral multiples of \$5,000, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

In addition, the Bonds maturing on September 1, 2029 and September 1, 2032 are subject to mandatory sinking fund redemption prior to maturity commencing on September 1, 2027 and September 1, 2030, respectively, in part, by lot, from Sinking Fund Payments (as defined in the Indenture) at a price equal to the principal amount thereof, plus accrued interest to the date of redemption, without premium, to the extent, in the manner and subject to the terms of the Indenture.

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the registered owners thereof not less than 30 nor more than 45 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the registration books. Neither a failure of the Registered Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date; provided that funds for the redemption are on deposit with the Fiscal Agent on the redemption date. Thereafter, the registered owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

This Bond shall be registered in the name of the Registered Owner hereof, as to both principal and interest, and the District and the Fiscal Agent may treat the Registered Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Fiscal Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Fiscal Agent shall not be required to register transfers or make exchanges of (i) any Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Indenture.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT OR OF COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) FOR WHICH THE CAPISTRANO UNIFIED SCHOOL DISTRICT OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE.

OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) has caused this Bond to be dated as of the Dated Date, to be signed on behalf of the District by the President of the Board of Trustees of the Capistrano Unified School District by her facsimile signature and attested by the facsimile signature of the Clerk of the Board of Trustees.
President of the Board of Trustees of the Capistrano

President of the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

ATTEST:

Clerk of the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

[FORM OF FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-defined Indenture.

Dated:, 2006	U.S. BANK NATIONAL ASSOCIATION, as Fiscal Agent
	By:Authorized Signatory

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

Clerk of the Board of Trustees of the Capistrano Unified School District, acting in its capacity as the legislative body of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto				
	(typewrite name, address and federal tax identification number)			
the wi	thin-registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney,			
to tran	sfer the same on the Bond Register with full power of substitution in the premises.			
Dated				
Signat	ure Guaranteed:			
Note:	Signature(s) must be guaranteed by an eligible guarantor institution.			
Note:	The signature(s) on this assignment must correspond with the name(s) as written on the face of the within-registered Bond in every particular, without alteration or enlargement or any change whatsoever.			

[FORM OF STATEMENT OF INSURANCE]

Financial Guaranty Insurance Policy No. _______ (the "Policy") with respect to payments due for principal of and interest with respect to this Bond has been issued by Ambac Assurance Corporation ("Insurer"). The Policy has been delivered to The Bank of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Insurer or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of Insurer as more fully set forth in the Policy.

7

EXHIBIT B

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2006 SPECIAL TAX REFUNDING BONDS

[FORM OF REQUISITION FOR DISBURSEMENT OF PROJECT COSTS AND/OR COSTS OF ISSUANCE]

Issuance Account] [Project Account] of the Construction Fund, established by the Bond Facilities District No. 90-2 of the Capistran	scal Agent, is hereby requested to pay from the [Costs of Community Facilities District No. 90-2 Acquisition and Indenture between the Fiscal Agent and Community to Unified School District (Talega) dated as of June 1, enamed below for payment of [Describe Type of Costs].
Payee:	
Address:	
Purpose:	
Amount: \$	
not formed the basis of any prior request for	er purchase order, contract or other authorization and has repayment. The conditions to the release of this amount 90-2 Acquisition and Construction Fund are satisfied.
attachment upon, or stop notice or claim aff specified above which has not been released	rved upon the District notice of any lien, right to lien or ecting the right to receive payment of the amount d or will not be released simultaneously with the payment r mechanic's liens accruing by mere operation of law.
Dated:	COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)
	By:Authorized Officer
	Authorized Officer

NEW ISSUE—BOOK-ENTRY ONLY

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements discussed herein, interest and original issue discount on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See "TAX MATTERS" herein.

STATE OF CALIFORNIA

COUNTY OF ORANGE

RATINGS: UNRATED

\$23,050,000

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2001 SPECIAL TAX BONDS

Dated: Delivery Date

Due: September 1, as shown below

The Series 2001 Special Tax Bonds (the "Bonds") are authorized pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from certain special taxes to be levied on property within Community Facilities District No. 90-2 (Talega) (the "District") of the Capistrano Unified School District (the "School District"), according to the rate and method of apportionment of special taxes approved by the voters within the District and by the Board of Trustees of the School District. Payment of principal of and interest on the Bonds is secured by a lien and charge upon such special taxes. The Bonds will be issued pursuant to a Bond Indenture dated as of October 1, 2001 between the District and U.S. Bank Trust National Association, as fiscal agent (the "Fiscal Agent").

The Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, N.Y. ("DTC"), and will be available to ultimate purchasers in the denomination of \$5,000 each or any integral multiple thereof pursuant to the book-entry system maintained by DTC. Ultimate purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2002. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC's Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants, as more fully described herein. See "THE BONDS—Book-Entry System" herein.

The Bonds are subject to optional and mandatory redemption as discussed herein. See "THE BONDS—Optional Redemption," "THE BONDS—Mandatory Redemption from Special Tax Prepayments" and "THE BONDS—Mandatory Sinking Fund Redemption" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF ORANGE, 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 OBLIGATIONS OF THE SCHOOL DISTRICT OR THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AS MORE FULLY DESCRIBED HEREIN.

MATURITY SCHEDULE (See Inside Cover Page)

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 which should be considered, in addition to other matters discussed herein, in evaluating the investment quality of the Bonds.

This cover page contains information for quick reference only. It is not a complete summary. Investors should read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered, when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, Riverside, California. It is anticipated that the Bonds will be available for delivery through the book-entry system of DTC in New York, New York on or about October 31, 2001.

UBS PaineWebber Inc.

134 Dated: October 19, 2001

MATURITY SCHEDULE \$4,950,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Price	Maturity Date (September 1)	Principal Amount	Interest Rate	Price
2003	\$ 25,000	3.00%	100.000	2011	\$200,000		
2004	,	0 7 0			\$300,000	4.75%	100.000
	55,000	3.30	100.000	2012	345,000	4.90	100.000
2005	85,000	3.50	100.000	2013	395,000	5.00	100.000
2006	115,000	3.80	100.000		,	· · -	
2007	,			2014	445,000	5.10	100,000
2007	145,000	4.15	100.000	2015	500,000	5.20	100.000
2008	180,000	4.25	100.000	2016	•		
2009				2010	560,000	5.30	100,000
	220,000	4.45	100.000	2017	625,000	5.40	100.000
2010	260,000	4.60	100.000	2010	•		
	-00,000	1.00	100.000	2018	695,000	5.50	99.449

\$3,580,000, 5.625% Term Bonds Due September 1, 2022, Price 97.890 \$14,520,000, 5.875% Term Bonds Due September 1, 2031, Price 98.949

CAPISTRANO UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Crystal Kochendorfer President

Sheila J. Henness Vice-President

John J. Casabianca Clerk

Sheila J. Benecke Member Mike Darnold Member

Marlene M. Draper Member Dr. Duane E. Stiff Member

OFFICERS

Dr. James A. Fleming District Superintendent

David A. Doomey Assistant Superintendent Facilities Planning

PROFESSIONAL SERVICES

Bond Counsel

Special Tax Consultant

Stradling Yocca Carlson & Rauth a Professional Corporation Newport Beach, California David Taussig & Associates, Inc. Newport Beach, California

Appraiser

Market Absorption Consultant

Bruce W. Hull & Associates, Inc. Ventura, California

Empire Economics, LLC Capistrano Beach, California

Fiscal Agent

U.S. Bank Trust National Association Los Angeles, California [THIS PAGE INTENTIONALLY LEFT BLANK]

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IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and any continuing disclosure documents of the District are intended to be made available through the Capistrano Unified School District ("the School District") at the address indicated below. The District has undertaken to provide certain continuing disclosure pursuant to a Continuing Disclosure Agreement, as described herein. Copies of the resolutions and other documents relating to the issuance of the Bonds are available upon request, and upon payment to the School District of a charge for copying, mailing and handling, from the Clerk of the Board of Trustees of the School District at 32972 Calle Perfecto, San Juan Capistrano, California 92675.

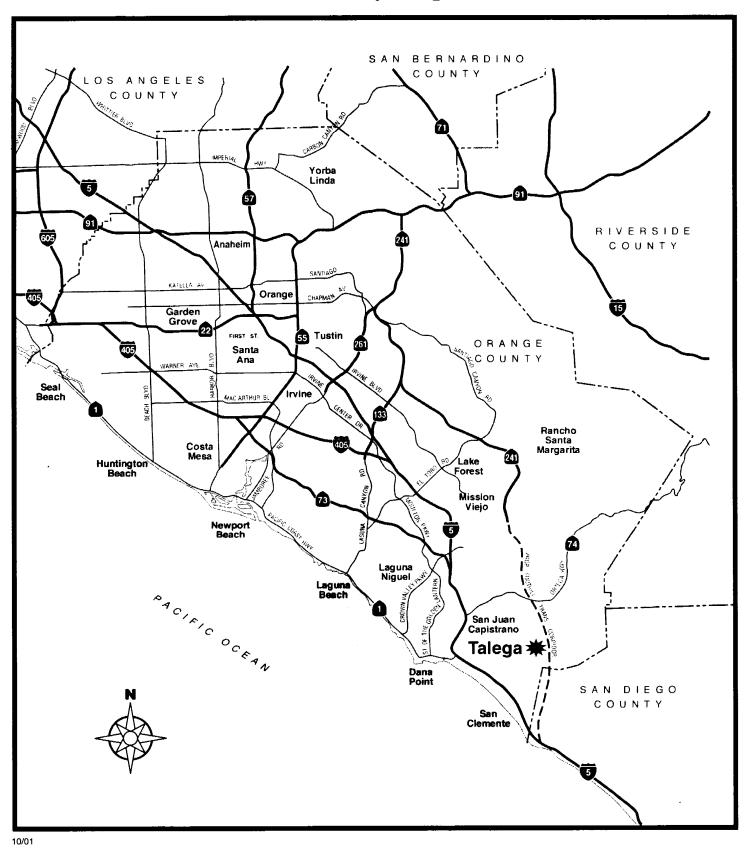
No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Bonds described herein, other than as contained in this Official Statement, and if given or made, such other information or representations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

This Official Statement is not to be construed as a contract with the purchasers 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 a representation of facts.

The information set forth herein has been obtained from the District, the School District and other sources believed to be reliable. This information is not guaranteed as to accuracy and is not to be construed as a representation by the District, the School District or the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the School District since the date hereof. All summaries contained herein of any resolutions, the Indenture, or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

THE UNDERWRITER HAS REVIEWED THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH ITS RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS, BUT DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF THE INFORMATION.

Vicinity Map



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\$23,050,000

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2001 SPECIAL TAX BONDS

INTRODUCTION

General

This Official Statement, including the cover page, table of contents and Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") of its bonds, designated Series 2001 Special Tax Bonds in the aggregate principal amount of \$23,050,000 (the "Bonds"). The Bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and a resolution adopted by the Board of Trustees of the Capistrano Unified School District (the "Board of Trustees") on October 1, 2001 and a Bond Indenture dated as of October 1, 2001 (the "Indenture") between the District and U.S. Bank Trust National Association, as fiscal agent (the "Fiscal Agent"). The Bonds shall be issued only as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof and shall be dated as of and bear interest from the date of their delivery at the rates set forth on the cover page hereof.

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 the 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 D - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Certain Definitions."

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21 E of the United States Securities Exchange Act of 1934, as amended, and Section 27 of United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," or other similar words. Such forward-looking statements include, but are not limited to, certain statements and information contained in the section of this Official Statement entitled "THE DEVELOPMENT PROJECT".

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT.

The District

The District consists of approximately 2,149 gross acres of land which are located in the southwesterly part of the School District and in the southwesterly portion of Orange County. The land within the District is part of the approximately 3,510 acre Talega Valley Planned Development (the "Talega Project"). Approximately 1,956.9 acres of the Talega Project are located in the City of San Clemente and the balance of approximately 1,553.1 acres are located in the County within the City's sphere of influence and will ultimately be annexed to the City. The development plan for the Talega Project provides for the development of the property within the District into 3,741 residential units, approximately 8.9 acres containing approximately 162,000 square feet of commercial retail uses and approximately 66.9 acres containing approximately 1,007,000 square feet of business park uses. The development plan also provides for the construction of an 18-hole, professionally designed, public golf course on approximately 223 acres and approximately 2,046 acres of natural open-space and public support uses including parks and an elementary school.

Portions of the Talega Project cannot be developed as currently planned without the issuance of a 404 Permit by the United States Army Corps of Engineers. See "Property Values" below, "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement" and "SPECIAL RISK FACTORS - Financing Bridge Construction."

The Mello-Roos Community Facilities Act of 1982, as amended, Section 53311 et seq. of the Government Code of the State of California (the "Act"), was enacted by the California Legislature to provide an alternative method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness.

The purpose of the bonded indebtedness to be incurred is to finance certain school facilities of the School District. See "FINANCING PLAN".

Pursuant to the Act, in establishing the District, the Board of Trustees adopted resolutions stating its intent to form the District, to authorize the levy of special taxes on land within the District (the "Special Taxes") and to authorize the District to incur bonded indebtedness. Following public hearings conducted pursuant to the Act, the Board of Trustees adopted resolutions establishing the District and calling a special election to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On June 19, 1990, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$10,000,000 and approved the levy of the Special Taxes on taxable property in the District to pay the principal of, and interest on, such bonded indebtedness.

On April 26, 1999, the Board of Trustees adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the District. On June 14, 1999, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness.

Sources of Payment for the Bonds

The Bonds are payable from the Special Taxes to be included on the regular property tax bills sent by the County of Orange Treasurer/Tax Collector (the "County Treasurer") to the record owners of property within the District. The principal of and interest on the Bonds are secured by a lien upon and pledge of the revenues of the Special Taxes levied on taxable property within the District. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes" and Appendix C hereto.

The District has covenanted for the benefit of the Owners of the Bonds that it will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent special taxes on such parcels is greater than \$5,000 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 properties 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 Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of five years or more in an amount in excess of \$10,000, so long as (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (b) the District is not in default in the payment of the principal of or interest on the Bonds. See "SECURITY FOR THE BONDS - The Special Taxes" and "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

As additional security for the Bonds, the Reserve Account will be established (the "Reserve Account") out of the proceeds of the sale of the Bonds. Pursuant to the Indenture the initial Reserve Requirement for the Bonds is an amount equal to \$2,204,123.52. If the amount in the Reserve Account is less than the Reserve Requirement, then the District has covenanted to restore the amount in the Reserve Account to the Reserve Requirement by the inclusion of a sufficient amount in the next annual Special Tax levy. The ability of the Board of Trustees, in its capacity as the legislative body of the District, to increase the annual Special Taxes levied to replenish the Reserve Account is subject to the maximum annual amounts of Special Taxes authorized by the qualified voters of the District. The moneys in the Reserve Account will be used only for payment of the principal of, and interest and any redemption premium on, the Bonds and, at the direction of the District, for deposit in the Rebate Fund. See "SECURITY FOR THE BONDS - Special Tax Fund - Reserve Account."

Property Values

An appraisal of the taxable property in the District dated August 15, 2001 (the "Appraisal"), has been prepared by Bruce W. Hull & Associates, Inc., of Ventura, California (the "Appraiser"). The Appraiser has estimated the market value of the property to be \$504,951,636 as of July 1, 2001. The ratio of the total amount of the appraised value of the property, as determined by the Appraiser, to the amount of bonded indebtedness (the "Value-to Lien Ratio") which will be outstanding and secured by special taxes and assessments levied on such property upon the issuance of the Bonds will be approximately 5.898 to 1.

At the request of the School District, the Appraiser has provided a limited summary appraisal report, dated October 15, 2001, for the purpose of determining whether the appraised values of the taxable property in the District have decreased since July 1, 2001 (the "Limited Report"). In the Limited Report, the Appraiser advises that, based on the investigation described therein, the Appraiser has formed the opinion that the terrorist events that occurred on September 11, 2001 may affect future real estate activity but, as of the date of such report, the estimated market values of the properties within the District are not less than those reported in the Appraisal. See "SECURITY FOR THE BONDS - Property Values."

See "SPECIAL RISK FACTORS - The Appraisal and Value-to-Lien Ratios." In addition, see "SECURITY FOR THE BONDS - Direct and Overlapping Debt" for a discussion of additional debt payable on a parity with the Bonds. See also the Summary Appraisal Report and the Limited Summary Appraisal Report which are included as Appendix A hereto.

In appraising the value of the taxable property in the District, the Appraiser has assumed that a 404 Permit which must be issued by the United States Army Corps of Engineers pursuant to Section 404 of the Federal Clean Water Act (33 U.S.C. §1344) and a certification which must be issued by the California Regional Water Quality Control Board, San Diego Region, pursuant to Section 401 of the Clean Water Act (33 U.S.C. §1341) before portions of the undeveloped property in the District can be developed will be issued in a timely manner, and that an existing streambed alteration agreement entered into with the California Department of Fish and Game pursuant to Section 1603 of the California Fish and Game Code will also be extended in a timely manner. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement."

Neither the faith and credit nor the taxing power of the School District, the County of Orange (the "County"), the State of California (the "State") 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 the County or general obligations of the District, but are limited obligations of the District payable solely from the Special Taxes 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 system is discontinued 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, as described herein. See "THE BONDS-Book-Entry System" and "Discontinuance of Book-Entry System."

Tax Matters

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 certain 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 E hereto 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 MATTERS" herein.

Professionals Involved in the Offering

U.S. Bank Trust National Association, Los Angeles, California, will act as Fiscal Agent under the Indenture and as the initial Dissemination Agent under the Continuing Disclosure Agreement. UBS PaineWebber Inc. is the Underwriter for the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the District and the School District by Stradling, Yocca, Carlson & Rauth, a Professional Corporation, and for the Underwriter by Best Best & Krieger LLP, Riverside, California, as Underwriter's Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, Bruce W. Hull & Associates, Inc., Ventura, California, as Appraiser, and Empire Economics, LLC, Capistrano Beach, California, as Market Absorption Consultant.

For information concerning circumstances in which certain of the above-named professionals may have a financial or other interest in the offering of the Bonds, see "FINANCIAL INTERESTS" herein.

Special Risks

See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds.

Continuing Disclosure

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the District by not later than six months after the end of each fiscal year commencing with the fiscal year ending June 30, 2001 (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events, if deemed by the District to be material. The Annual Reports will be filed by the Fiscal Agent, as Dissemination Agent on behalf of the District, with each Nationally Recognized Municipal Securities Information Repository and with any State Repository which may be designated by the State of California. The notices of material events will be filed by the Fiscal Agent, as Dissemination Agent, on behalf of the District with the Municipal Securities Rulemaking Board (the "MSRB") and with any such State Repository which may be designated. Talega Associates has also covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the development of its property within the District in Annual Reports filed by the Fiscal Agent, as Dissemination Agent, with such Repositories by May 1 of each year commencing May 1, 2002 and in Semiannual Reports filed by the Fiscal Agent, as Dissemination Agent, with such Repositories by November 1 of each year commencing November 1, 2002, and to provide notices of the occurrence of certain specified events, if determined by Talega Associates to be material, to the MSRB and any such State Repository. The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in "APPENDIX F -CONTINUING DISCLOSURE AGREEMENT" and "APPENDIX G - DEVELOPER DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

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, certain sections of the Indenture, security for the Bonds, special risk factors, the District, the School District, the major landowners and developers in the District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights.

Copies of such documents may be obtained from the office of the Clerk of the Board of Trustees of the School District, 32972 Calle Perfecto, San Juan Capistrano, California 92675.

FINANCING PLAN

The Project

The District will deposit a portion of the net Bond sale proceeds in the Acquisition and Construction Fund to finance portions of the costs associated with the design and construction of an elementary/middle school and a high school (the "Project").

Sources and Uses of Funds

The Bond proceeds will be applied as follows:

Sources of Funds	
Principal Amount of Bonds	\$23,050,000.00
Original Issue Discount	(231,972.65)
Total Sources	\$22,818,027.35
Uses of Funds	
Acquisition and Construction Fund	\$19,186,099.23
Reserve Account	2,204,123.52
Costs of Issuance Account	625,000.00
Capitalized Interest Subaccount(1)	457,054.60
Underwriter's Discount	345,750.00
Total Uses	\$22,818,027.35

⁽¹⁾ A portion of the interest on the Bonds through September 1, 2002.

THE BONDS

Description of the Bonds

The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof and will be dated as of and bear interest from the date of their delivery at the rates set forth on the cover page hereof. The Bonds will be registered in the name of Cede & Co., as nominee of The

Depository Trust Company ("DTC"), and will be available to ultimate purchasers under the book-entry system maintained by DTC. See "Book-Entry System" below.

The principal of the Bonds and any premiums due upon the redemption thereof will be payable in lawful money of the United States of America by check of the Fiscal Agent at the principal corporate trust office of the Fiscal Agent in Minneapolis, Minnesota, upon presentation and surrender of such Bonds.

Interest on the Bonds will be paid in lawful money of the United States of America commencing March 1, 2002, and semiannually thereafter on September 1 and March 1 of each year (each, an "Interest Payment Date"). Interest on the Bonds shall be paid by check of the Fiscal Agent mailed by first class mail on each Interest Payment Date to each Bondowner at his or her address as it appears on the registration books for the Bonds to be kept by the Fiscal Agent (the "Bond Register") as of the close of business on the 15th day preceding any interest payment date regardless of whether such day is a business day (the "Record Date"). Upon request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account in the United States designated by such Owner. Interest on any Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) the date of authentication is an Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond, in which event interest shall be payable from the dated date of such Bond; provided, however, that if at the time of authentication of any Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which interest has been paid or made available for payment. Interest due on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Bonds will mature on September 1 in the principal amounts and years as shown on the cover page hereof.

Authority for Issuance

The Bonds were authorized at a special election held on June 14, 1999 in the District and are issued pursuant to the Indenture.

The District was formed and a bonded indebtedness in the amount of \$50,000,000 was authorized pursuant to the Act and a resolution adopted by the Board of Trustees of the School District (the "Board of Trustees"). Under the provisions of the Act, since there were fewer than 12 registered voters residing within the District at the time of the election, the owners of the land within the District were entitled to cast one vote for each acre or portion of an acre of land which they owned within the District. The landowners voted to authorize the District to incur a bonded indebtedness and to approve, for the purpose of repaying the bonded indebtedness, the annual levy of Special Taxes to be collected within the District. See "THE DISTRICT - Summary of Formation Proceedings."

Purpose of the Bonds

The Bonds are being issued to finance the Project. See "FINANCING PLAN."

Optional Redemption

The Bonds maturing on or before September 1, 2011 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after September 1, 2012 are subject to redemption prior to their stated maturities at the option of the District from any source of funds on September 1, 2011 and on any Interest Payment Date thereafter, in whole, or in part in the order of maturity selected by the District and by lot within a maturity, in integral multiples of \$5,000, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption.

Mandatory Redemption From Special Tax Prepayments

The Bonds are also subject to mandatory redemption prior to their stated maturities, on March 1, 2002 and on any Interest Payment Date thereafter, from moneys derived by the District from Special Tax prepayments, selected among maturities as determined by the District in its sole discretion (and by lot within any one maturity), in integral multiples of \$5,000, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

Redemption Dates	Redemption Prices
March 1, 2002 through March 1, 2009	103%
September 1, 2009 and March 1, 2010	102%
September 1, 2010 and March 1, 2011	101%
September 1, 2011 and thereafter	100%

Mandatory Sinking Fund Redemption

The Bonds maturing on September 1, 2022 and September 1, 2031 will be called before maturity and redeemed, from the Sinking Payments that have been deposited into the Redemption Account, on September 1, 2019 and September 1, 2023, respectively, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption will be selected by the Fiscal Agent by lot and will be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Bonds Maturing on September 1, 2022

Redemption Date	Principal Amount of Bonds
(September 1)	to be Redeemed
2019	\$ 770,000
2020	850,000
2021	935,000
2022 (maturity)	1,025,000

Bonds Maturing on September 1, 2031

Redemption Date (September 1)	Principal Amount of Bonds to be Redeemed
2023	\$1,120,000
2024	1,225,000
2025	1,340,000
2026	1,460,000
2027	1,585,000
2028	1,720,000
2029	1,865,000
2030	2,020,000
2031 (maturity)	2,185,000

In the event of a partial optional redemption of the Bonds maturing on September 1, 2022 or on September 1, 2031, each of the remaining Sinking Fund Payments for such Bonds, as set forth in the schedule above, will be reduced, as nearly as practicable, on a pro rata basis.

Notice of Redemption

Notice of redemption, containing the information required by the Indenture, will be mailed by the Fiscal Agent at least 30 days but not more than 60 days prior to the redemption date to the registered Owners of the Bonds called for redemption, to each of certain specified securities depositories (The Depository Trust Company, Midwest Securities Trust Company and Philadelphia Depository Trust Company) and to each of certain specified national information services (Bloomberg Municipal Repositories, DPC Data, Inc., Interactive Data and Standard & Poor's J.J Kenny Repository). The actual receipt by any Bondowner of such notice of redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for redemption or the cessation of interest on the redemption date.

If the amount necessary for the redemption of the Bonds is available on the date fixed for redemption, the Bonds or portions thereof designated for redemption will be deemed to be no longer Outstanding and will cease to bear further interest.

Registration of Exchange or Transfer

The registration of any Bond may 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 office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form acceptable to the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

The District and the Fiscal Agent may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of a Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the

Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Bonds or other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Bondowner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds of the same issue and maturity, for a like aggregate principal amount. The Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

If any Bond shall become mutilated, the District shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond or Bonds of like tenor, date, issue and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of such mutilated Bond. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the District and the Fiscal Agent shall be given, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond of like tenor, date, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Fiscal Agent

U.S. Bank Trust National Association, has been appointed as the Fiscal Agent under the Indenture.

The Fiscal Agent, and any successor thereto, may be removed by the District and a successor or successors may be appointed, provided, however, that any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and be subject to supervision or examination by federal or state authority. The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners of the Bonds notice of such resignation. Upon receiving such notice, the District shall promptly appoint a successor Fiscal Agent. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Fiscal Agent without the execution or filing of any paper or any further act.

The Fiscal Agent assumes no responsibility for the correctness of the recitals of fact and all promises, covenants and agreements contained in the Indenture or the Bonds and makes no representations as to the validity or sufficiency of the Indenture or the Bonds and will incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Indenture and the Bonds. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in this official statement or any other disclosure material prepared and distributed with respect to the issuance of the Bonds. The Fiscal Agent shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. No provision of the Indenture shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture or in the exercise of its rights or powers.

Defeasance

The Indenture provides that if the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond, the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of the Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and 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 principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed above if the Bond or Parity 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 shall become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on, such Bond or Parity 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, noncallable Federal Securities (as defined in the Indenture) in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) 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 or Parity Bond, as and when the same shall become due and payable.

In connection with a defeasance under (b) or (c) above, there must be provided to the District a verification report from an independent nationally recognized certified public accountant 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, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased as and when the same shall become due and payable, and an opinion of nationally recognized bond counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Debt Service Schedule

The following is the debt service schedule for the Bonds, assuming no redemption other than mandatory sinking fund redemptions.

Debt Service Schedule

Year Ending September	Principal	<u>Interest</u>	Total Debt Service
2002		\$1,087,786.83	\$ 1,087,786.83
2003	\$ 25,000	1,301,007.50	1,326,007.50
2004	55,000	1,300,257.50	1,355,257.50
2005	85,000	1,298,442.50	1,383,442.50
2006	115,000	1,295,467.50	1,410,467.50
2007	145,000	1,291,097.50	1,436,097.50
2008	180,000	1,285,080.00	1,465,080.00
2009	220.000	1,277,430.00	1,497,430.00
2010	260,000	1,267,640.00	1,527,640.00
2011	300.000	1,255,680.00	1,555,680.00
2012	345,000	1,241,430.00	1,586,430.00
2013	395,000	1,224,525.00	1,619,525.00
2014	445,000	1,204,775.00	1,649,775.00
2015	500,000	1,182,080.00	1,682,080.00
2016	560.000	1,156,080.00	1,716,080.00
2017	625,000	1,126,400.00	1,751,400.00
2018	695,000	1,092,650.00	1,787.650.00
2019	770,000	1,054,425.00	1,824,425.00
2020	850.000	1,011,112.50	1,861,112.50
2021	935,000	963,300.00	1,898,300.00
2022	1,025,000	910,706.26	1,935,706.26
2023	1,120,000	853,050.00	1,973.050.00
2024	1,225,000	787,250.00	2,012,250.00
2025	1,340,000	715,281.26	2,055,281.26
2026	1,460,000	636,556.26	2,096,556.26
2027	1,585,000	550,781.26	2,135,781.26
2028	1,720,000	457,662.50	2,177,662.50
2029	1,865,000	356,612.50	2,221,612.50
2030	2,020,000	247,043.76	2,267,043.76
2031	2.185.000	128.368.76	2,313,368.76
	\$23,050,000	\$29,559,979.39	\$52,609,979.39

Book-Entry System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond 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 (the "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.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, 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 Participants through which Beneficial Owners 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 the 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 securities 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 which may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer 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, mandatory redemption and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the District subject to any statutory or regulatory requirements which may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The District cannot and does not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The District is not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be

Discontinuance of Book-Entry System

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the Fiscal Agent and discharging its responsibilities with respect thereto under applicable law or the District may terminate participation in the system of book-entry transfers through DTC or any other securities depository at any time. In the event that the book-entry system is discontinued, the District will execute, and the Fiscal Agent will authenticate and make available for delivery, replacement Bonds in the form of registered bonds.

SECURITY FOR THE BONDS

The Bonds and the interest thereon are payable from the annual Special Taxes to be levied and collected on all property within the District subject to the Special Taxes and proceeds, if any, collected from the sale of such property at foreclosure sale for delinquency of such Special Taxes and from Bond proceeds deposited in the Reserve Account of the Special Tax Fund. The amount of Special Taxes that may be levied in the District in any year is strictly limited by the maximum rates approved by the qualified electors in the District. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes" and Appendix C hereto.

Amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) shall constitute a trust fund held for the benefit of the Owners of the Bonds to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding, shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Special Taxes and other amounts, if any, deposited in the Special Reserve Fund, the Rebate Fund and the Administrative Expense Account of the Special Tax Fund are not pledged to the payment of any of the Bonds, and none of such funds or such accounts shall be construed as a trust fund held for the benefit of the Owners of the Bonds.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, the Special Taxes are exempt from the tax rate limitations of California Constitution Article XIII A pursuant to Section 4 thereof as a "special tax" authorized by a two-thirds vote of the qualified electors of the District. Consequently, the District has the power and is obligated to cause the levy and collection of the Special Taxes in an amount determined according to a methodology which the Board of Trustees and the qualified electors in the District have approved (the "Rate and Method of Apportionment of Special Taxes"). See "The Special Taxes" below. However, Article XIII C of the California Constitution may allow the voters in the District (or perhaps in the School District), under certain conditions, to adopt an ordinance by initiative which would reduce or repeal the Special Taxes. See "SPECIAL RISK FACTORS - Constitutional Amendment." The Rate and Method of Apportionment of Special Taxes apportions the total debt service requirement (principal and interest and restoration of the Reserve Account, if required) each year among the taxable parcels and possessory interests in the District. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF ORANGE, 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 BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Special Taxes

The District has covenanted to levy the Special Taxes in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on the Bonds when due and, to the extent permitted by law, the Administrative Expenses and any amounts required to replenish the Reserve Account to the Reserve Requirement. Any Special Tax levy, however, is limited to the maximum rates of Special Taxes authorized by the qualified electors of the District, as set forth in the Rate and Method of Apportionment of Special Taxes, and no assurance can be given that the necessary amounts will in fact be collected in any given year. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes" and Appendix C hereto.

The Special Taxes (except those which may be levied on possessory interests in property) will be billed with property taxes and collected by the County Treasurer. Any Special Taxes levied on leasehold or other possessory interests in property in the District will be collected by the County Treasurer on the unsecured tax roll of the County. When received, such Special Taxes will be deposited in the Special Tax Fund (as hereinafter defined) for the payment of debt service on the Bonds, and in the Reserve Account to the extent necessary to restore the balance therein to the Reserve Requirement. The remainder of such Special Taxes will be deposited in the Special Reserve Fund. See "Special Reserve Fund" below.

Although the Special Taxes will be levied on taxable parcels within the District, they do not constitute a personal indebtedness of the property owners or possessory interest holders. There is no assurance that the property owners or possessory interest holders will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes."

Special Tax Fund

The Indenture establishes a fund to be held by the Fiscal Agent designated the Community Facilities District No. 90-2 Special Tax Fund (the "Special Tax Fund"). All moneys received from the annual Special Taxes levied and collected within the District and earnings thereon and proceeds from the sale of property at foreclosure sale for delinquent Special Taxes (the "Special Tax Revenues") shall be deposited in the Special Tax Fund and, except as otherwise authorized by the Indenture, shall be used for the purpose of paying the principal of, and interest on, the Bonds, paying Administrative Expenses of the District and restoring the Reserve Account to the Reserve Requirement.

Amounts in the Special Tax Fund (exclusive of the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners of the Bonds to be applied to the payment of interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Moneys held by the Fiscal Agent in the Special Tax Fund and the accounts and subaccounts therein may be invested in certain "Authorized Investments" which are identified in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" attached hereto as Appendix D.

On each date on which the Special Taxes are received from the District, the Fiscal Agent will deposit the Special Taxes in the Special Tax Fund to be held in trust. The Fiscal Agent will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth below, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund;
- (2) The Interest Account of the Special Tax Fund:
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund.
- (5) The Reserve Account of the Special Tax Fund:
- (6) The Rebate Fund; and
- (7) The Special Reserve Fund.

Administrative Expense Account

The Fiscal Agent will transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District. The total deposit made to the Administrative Expense Account in any Bond Year will not exceed the Administrative Expense Cap (i.e., the amount of \$75,000, with such amount escalating by 2% per Bond Year beginning September 2, 2002) until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds due in such Bond Year.

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

Interest Account and Principal Account

The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer to the Administrative Expense Account, at least five Business Days prior to each March 1 and September 1, commencing March 1, 2002, the Fiscal Agent will make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of the Bonds or any Parity Bonds, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

- (a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.
- (b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2003, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account

Before each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the Indenture, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture and in any Supplemental Indenture for such Term Bonds.

After making the deposit to the Redemption Account for Sinking Fund Payments then due, and in accordance with the District's election to call Bonds for optional redemption, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for such Parity Bonds, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the

Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used by the Fiscal Agent upon written direction of the District to settle purchases by the District of Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds, the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account

The Indenture provides that a Reserve Account must be maintained in the Special Tax Fund in an amount equal to the Reserve Requirement. Upon the issuance of the Bonds, \$2,204,123.52 will be deposited in the Reserve Account to establish the amount in the Reserve Account at the initial Reserve Requirement.

Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds and Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

Whenever moneys are withdrawn from the Reserve Account, after making the other required transfers, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

The Reserve Requirement is that amount as of any date of calculation which is equal to the lowest of (i) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, or (ii) Maximum Annual Debt Service, or (iii) 125% of average Annual Debt Service on the Outstanding Bonds and Parity Bonds.

Rebate Fund

The Indenture establishes the Rebate Fund and a separate Rebate Account therein. The District is required to annually calculate rebatable arbitrage ("Rebatable Arbitrage"), a specified in the Indenture, and to direct the Fiscal Agent to deposit to the Rebate Account, from funds designated by the District, the amount, if any, which is necessary to cause the balance in the Rebate Account to be equal to the amount of Rebatable Arbitrage. The Fiscal Agent is required to use the amount on deposit in the Rebate Account to make any required rebate payments to the United States Treasury which are necessary for the District to comply with the requirements of Section 148(f) of the Code.

The method of calculating Rebatable Arbitrage which is set forth in the Indenture may be amended, without the consent of the Owners of the Bonds, upon receipt by the District of an opinion of Bond Counsel that such amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any issue of Bonds and Parity Bonds on a tax-exempt basis.

Moneys in the Rebate Fund are not pledged to the payment of the Bonds.

Special Reserve Fund

After making the transfers described above, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Special Reserve Fund. Moneys deposited in the Special Reserve Fund may be transferred by the Fiscal Agent (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account are insufficient to pay Administrative Expenses.

The amounts in the Special Reserve Fund are not pledged for the payment of principal or interest on the Bonds and may be used by the District for any lawful purpose. In addition, the District is not obligated to maintain any amounts in the Special Reserve Fund, to deposit any moneys therein or to in any manner levy the Special Tax at a rate sufficient to provide moneys for deposit into the Special Reserve Fund.

Investment of Moneys

Moneys held in any of the funds, accounts and subaccounts under the Indenture will be invested by the Fiscal Agent at the direction of the District, in accordance with the limitations set forth in the Indenture, only in Authorized Investments which shall be deemed at all times to be a part of such funds, accounts and subaccounts. The Indenture defines Authorized Investments to include, with certain exceptions, investments which at the time of investment are legal investments under the laws of the State, which includes certain government obligations as well as other obligations which may or may not be rated by a national rating service.

Authorized Investments include guaranteed investment agreements and repurchase agreements subject to certain requirements set forth in the Indenture.

One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase, and one-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase; provided that such amounts may be invested in an investment agreement to the final maturity of the Bonds or any Parity Bonds, so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds.

Any loss resulting from such Authorized Investments shall be credited or charged to the fund, account or subaccount from which such investment was made. Investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Reserve Fund and the Rebate Fund shall be deposited in those respective funds, investment earnings on all amounts deposited in the Administrative Expense Account shall be deposited in the Special Reserve Fund and all other investment earnings shall be deposited in the Interest Account of the Special Tax Fund.

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the District is authorized by the Act to order institution of an action in the Superior Court of the County to foreclose any lien therefor. Such an action may result in the real property subject to such Special Taxes being sold at judicial foreclosure sale. The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances, such as by the bankruptcy of the property owner, and may require prior consent of the obligee in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation see "SPECIAL RISK FACTORS - Bankruptcy." "SPECIAL RISK FACTORS - Payments by FDIC." and "SPECIAL RISK FACTORS - Tax Delinquencies".

In the Indenture, the District has covenanted to commence judicial foreclosure proceedings against all parcels of property owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each fiscal year in which such Special Taxes were due, and that it will commence such 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 Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of five years or more in an amount in excess of \$10,000, so long as (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (b) with respect to the Bonds, or any Parity Bonds, the District is not in default in the payment of the principal of and interest on the Bonds or any such Parity Bonds. The District will not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement, or to avoid a default in the payment of the Bonds. In a foreclosure proceeding, the District is entitled to recover penalties and interest on the delinquent Special Taxes through the date that an order of sale is entered. See "SECURITY FOR THE BONDS - The Teeter Plan." Prompt commencement of foreclosure proceedings may not alone result in a timely or complete resolution of Special Tax delinquencies.

If the Reserve Account is depleted, there could be a default or a delay in payments to Owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds.

However, within the limits of the Rate and Method of Apportionment of Special Taxes, the District may adjust the Special Taxes levied on all taxable property within the District to provide an amount required to pay debt service on the Bonds and to replenish the Reserve Account.

Under current law, a judgment debtor (property owner) has at least 120 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. This remedy is not available unless the judgment creditor purchases the property at the foreclosure sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revived judgment, and any liens extinguished by the sale are revived as if the sale had not been made.

Other Covenants

The District has made the following covenants in the Indenture, among others, for the benefit of the Owners of Bonds; provided, however, that these covenants do not require the District to spend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

- (a) The District will receive all Special Taxes in trust and will immediately deposit all Special Taxes with the Fiscal Agent and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes will be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.
- (b) The District will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond, together with the premium, if any, thereon on the dates, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor.
- (c) The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds.
- (d) The District will take no action and refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by referenced therein, including payment of any rebate amounts owing to the United States on the Bonds.
- (e) The legislative body of the District covenants to levy the Special Taxes in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (i) the principal (including Sinking Fund Payments) of and interest on the Bonds and any Parity Bonds when due, (ii) to the extent permitted by law, the Administrative Expenses, and (iii) any amounts required to replenish the Reserve Account to the Reserve Requirement. The District further covenants that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates, unless, in connection therewith (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the

reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of Annual Debt Service, after payment of the Administrative Expense Cap, in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interest of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculations, the Independent Financial Consultant or special tax administrator will compute the Administrative Expenses for the current fiscal year and escalate that amount by 2% in each subsequent fiscal year. For purposes of this covenant, Developed Property means a parcel of property for which a building permit for new construction was issued prior to March 1 of the prior fiscal year.

The District covenants that in the event any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the preceding paragraph or to limit the power of the District to levy the Special Taxes for the purposes set forth in that paragraph, it will commence and pursue legal action in order to preserve its ability to comply with its covenant contained in the preceding paragraph.

- (f) The District will cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the District's Special Tax Administrator and will not accept any such prepayment unless it receives a Certificate of the Special Tax Administrator stating that the amount of the Assigned Special Taxes that may be levied on all Taxable Property within the District both prior to and after the proposed prepayment is at least 1.1 times the Maximum Annual Debt Service on all Outstanding Bonds.
- (g) The District will not include in any calculation of the amount necessary to prepay and permanently satisfy the Special Tax obligation of any parcel of taxable property in the District of a proportionate amount of the amount then on deposit in the Reserve Account of the Special Tax Fund, unless after the application of amounts from the Reserve Account to redeem Bonds as the result of the prepayment of Special Taxes, the amount on deposit in the Reserve Account is equal to or greater than 100% of the then applicable Reserve Requirement.
- (h) The District will not accept the tender of Bonds in lieu of cash for the payment of Special Taxes levied by the District.

The District has also covenanted in the Indenture to transfer an amount equal to any Rebatable Arbitrage to the Rebate Account in the Rebate Fund. In the event that the amounts in the Rebate Fund are insufficient, however, there is no assurance that the District will have sufficient moneys to fulfill its obligation to rebate Rebatable Arbitrage to the United States Treasury. In such event, interest on the Bonds could be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. See "Rebate Fund" above and "TAX MATTERS" and "SPECIAL RISK FACTORS - Loss of Tax Exemption."

Supplemental Bond Indentures

The Indenture may be modified or amended at any time without notice to or the consent of any Bondowners, by a Supplemental Indenture entered into by the District and the Fiscal Agent 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 additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners, (b) to add to the covenants and agreements of and the limitations and 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 or which further secure Bond payments, (c) 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, (d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by the Code or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding, (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 Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under another section of the Indenture, or (f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

The section of the Indenture which is referred to in clause (e) of the preceding paragraph provides that in order for the District to reduce the maximum Special Tax, it must receive a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the Annual Debt Service, after payment of the Administrative Expense Cap, in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved.

The Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, 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 over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to a Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

Issuance of Parity Bonds

Upon satisfaction of the conditions specified in the Indenture, the District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued for any purposes authorized under the Act. Among the conditions which must be satisfied is a requirement that the District provide a certificate issued by one or more Independent Financial Consultants which, when taken together, certify that: (a) the value of District Property (i.e., all parcels of property in the District which are subject to the levy of the Special Tax and not delinquent in the payment of any Special Taxes then due and owing), with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and State agencies having jurisdiction over the property as of the date of valuation, is at least three times the sum of the aggregate principal amount of the Outstanding Bonds, the Parity Bonds proposed to be issued and Overlapping Debt (i.e., and other outstanding bonded indebtedness which is secured by special taxes and assessments levied on property in the District), (b) the value of Developed Property is at

least three and one-half times the sum of Overlapping Debt allocable thereto, plus the portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds ("Parity Debt") which is allocable to the Developed Property, (c) the value of Near Term Property is at least three times the sum of the Overlapping Debt allocable thereto, plus the portion of the aggregate principal amount of the Parity Debt which is allocable to Near Term Property, and (d) the value of Undeveloped Property is at least two and one-half times the sum of the Overlapping Debt allocable thereto, plus the portion of the aggregate principal amount of the Parity Debt which is allocable to the Undeveloped Property. The value of District Property, Near Term Property and Undeveloped Property must be determined by an appraisal performed in a manner specified in the Indenture or from the last equalized assessment roll of the County Assessor. Also, for purposes of such certifications, there will be allocated to Developed Property, Near Term Property and Undeveloped Property the largest principal amount of Parity Debt that results in the maximum Special Taxes that may be levied on Developed Property, Near Term Property or Undeveloped Property (not including parcels with delinquent special taxes) in each fiscal year being at least equal to the sum of 110% of the portion of Annual Debt Service on such Parity Debt in the Bond Year ending on September 1 following the end of such fiscal year plus the share of Administrative Expenses that is allocable to such property for such fiscal year.

Near Term Property is defined in the Indenture as real property in the District (i) with respect to which a subdivision map or parcel map creating conveyable parcels has been recorded with the County Recorder, (ii) for which grubbing and clearing are complete, (iii) for which both rough cut and fill are 90% complete and grading on a materials moved basis is 90% complete, (iv) with respect to which a paved public access road with utilities, other than water and sewer, has been completed to within 100 yards of each parcel designated as Near Term Property, and (v) with respect to water and sewer utilities, a will-serve letter has been executed by the Water District covering all of the Near Term Property, and (vi) with respect to which no building permit for residential units or a non-residential building has been issued.

Undeveloped Property is defined in the Indenture as taxable real property within the District which is not Developed Property or Near Term Property and with respect to which all environmental permits which are required to develop the property as planned have been issued by federal and State agencies having jurisdiction over the property.

The preceding discussion is a summary of the principal conditions that must be satisfied before the District can issue Parity Bonds. See "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Parity Bonds - Conditions for the Issuance of Parity Bonds and Other Additional District Indebtedness" for the complete terms of the conditions that must be satisfied before the District can issue Parity Bonds to finance additional Project costs.

The School District plans to have the District issue additional bonds to finance a portion of the cost of the design and construction of a high school.

Talega Associates has initiated discussions with the School District about the possibility of the Board of Trustees conducting proceedings pursuant to the Act to designate an improvement area over portions of the undeveloped property in the District to issue an additional \$30,000,000 of bonds of the District for the purpose of financing certain road and other facilities for the City of San Clemente and additional school facilities of the School District. If the improvement area is designated and additional bonds of the District are issued to finance such facilities, those bonds would be secured by special taxes levied on property in the improvement area which would have a lien on a parity with the lien of the Special Taxes. This proposal has not yet been presented to the Board of Trustees. See "Other Financing Districts - Improvement Area" below.

Property Values

The Appraisal was prepared to estimate the market value of the taxable property within the District based on certain assumptions. See the Summary Appraisal Report and the Limited Summary Appraisal Report contained in Appendix A hereto for a complete description of the assumptions made by the Appraiser.

The aggregate totals of the appraised values of the taxable property in the District, as estimated by the Appraiser and set forth in the Appraisal, is approximately 5.898 times the aggregate principal amount of the Bonds, the aggregate principal amount of the outstanding bonds of Community Facilities District No. 99-1 of the Santa Margarita Water District (the "Water District"), the portion of the remaining installment payments of the Water District for the purchase of capacity in the Allen-McColloch Pipeline which is allocable to the taxable property in the District and certain indebtedness of the Metropolitan Water District of Southern California which is allocable to the taxable property in the District, as shown in Table 1 under "Direct and Overlapping Debt" below and in Tables 2 and 4 under "Summary of Appraised Values and Certain Public Debt" below.

No assurance can be given that this relationship or ratio of the appraised values of the property in the District to such indebtedness can or will be maintained during the period of time that the Bonds are Outstanding in that the actual value of the property may vary from that estimated by the Appraiser or assigned by the County Assessor, and the School District has no control over the amount of additional indebtedness that may be issued in the future by other governmental agencies, the payment of which, through the levy of a tax or an assessment, is on a parity with the Special Taxes.

In appraising the value of the taxable property in the District, the Appraiser has assumed that a 404 Permit which must be issued by the United States Army Corps of Engineers pursuant to Section 404 of the Federal Clean Water Act (33 U.S.C. § 1344) and a certification which must be issued by the California Regional Water Quality Control Board, San Diego Region, pursuant to Section 401 of the Clean Water Act (33 U.S.C. § 1341), before portions of the undeveloped property in the District can be developed will be issued in a timely manner and that an existing streambed alteration agreement entered into with the California Department of Fish and Game pursuant to Section 1603 of the California Fish and Game Code will also be extended in a timely manner. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement."

At the request of the School District, the Appraiser has provided a limited summary appraisal report dated October 15, 2001, for the purpose of determining whether the appraised values of the taxable property in the District have decreased since July 1, 2001 (the "Limited Report"). In the Limited Report, the Appraiser advises that, based on the investigation described therein, the Appraiser has formed the opinion that the terrorist events that occurred on September 11, 2001 may affect future real estate activity but, as of the date of such report, the estimated market values of the properties within the District are not less than those reported in the Appraisal. See "APPENDIX A - APPRAISAL REPORTS" for the Appraisal and the Limited Report.

Direct and Overlapping Debt

Table 1 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the District, including the portion of the principal amount of the outstanding bonds of CFD No. 99-1 which relates to proceeds of such bonds which are on deposit in the escrow fund.

Community Facilities District No. 90-2 (Talega) Direct and Overlapping Debt Summary

		on cee and over apping ocor summary	Deut Summaly		
Overlapping Debt	Actual FY 2001-02 Total Levy	Amount of Levy on Taxable Parcels in District ⁽¹⁾	Percent of Levy on Taxable Parcels in District	Total Debt Outstanding	District Share of Total Debt Outstanding
Santa Margarita Water District CFD No. 99-1	\$16,309,735(2)	\$16,309,735	%000.001	\$ 67,055,000 ⁽³⁾	\$67,055,000
Metropolitan Water District	\$106,497,373	\$ 30,517	0.0287%	\$527,480,000	\$ 151,149
Santa Margarita Water District					
Allen-McColtoch Pipeline	N A	NA	A Z	\$ 22,251,156	\$ 1,880,223(4)
		Estimated Share	Estimated Share of Overlapping Debt Allocable to the District	ocable to the District	\$ 69,086,372
				Plus the Bonds	\$ 23,050,000
	Est	imated Share of Direct ar	Estimated Share of Direct and Overlapping Debt Allocable to the District	cable to the District	\$ 92,136,372
	Less Share	of Direct and Overlappin	Less Share of Direct and Overlapping Debt Allocable to Non-Taxable Property ⁽⁵⁾	-Taxable Property ⁽⁵⁾	\$ 6,527,173
		timated Direct and Overl	Estimated Direct and Overlapping Debt Allocable to Taxable Property ⁽⁶⁾	Taxable Property ⁽⁶⁾	\$ 85,609,199
Includes levy on age-restricted units	ts.				

includes tevy on age-restricted units. lε

Assumes all Developed Property and Near Term Property is taxed at the Assigned Special Tax rate for Developed Property. Undeveloped Property is taxed at the Maximum Special Tax Rate. 3

(3) Includes both escrowed and non-escrowed bonds.

of Orange County ("MWDOC") for the purchase of capacity in the Allen-McColloch Pipeline was allocated to the property within the District for fiscal year 2001-02. The Water District levies assessments known as the "AMP Assessment" on parcels of taxable property in its service area to (4) Based on discussions with the Water District staff, 8.45% of the Water District's installment payment obligation to the Municipal Water District pay installment payments to MWDOC for the purchase of capacity in the pipeline.

Property in Area 2C of Village II of the Talega Project where age-restricted housing units will be located is not Taxable Property in the District. However, it is Taxable Property in CFD No. 99-1. (3)

This property is currently taxable Undeveloped Property but will become exempt from the levy of the Special Tax if it is developed as planned. (6) Includes approximately 16 acres of property in Areas 6C and 6E of Village VI which are planned to be developed into 46 age-restricted units.

Source: David Taussig & Associates, Inc.

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Other public agencies, such as the Water District, may issue additional indebtedness at any time, without the consent or approval of the School District or the District. See "SPECIAL RISK FACTORS - Future Indebtedness."

The District has not undertaken to commission annual appraisals of the market value of property in the District for purposes of its Annual Reports pursuant to the Continuing Disclosure Agreement, and information regarding property values for purposes of a direct and overlapping debt analysis which may be contained in such reports will be based on assessed values as determined by the County Assessor. See Appendix F hereto for the form of the Continuing Disclosure Agreement.

Other Financing Districts

CFD No. 99-1. The Water District has established its Community Facilities District No. 99-1 (Talega) ("CFD No. 99-1") which includes all of the land within the District. On August 17, 1999, CFD No. 99-1 issued its Series 1999 Special Tax Bonds (the "CFD No. 99-1 Bonds") in the aggregate principal amount of \$67,070,000. On that date, \$12,570,000 of the proceeds of the CFD No. 99-1 Bonds were deposited in an escrow fund to be held by the trustee for the bonds. Except for amounts which will be disbursed by the trustee to pay interest on the principal amount of the CFD No. 99-1 Bonds represented by the amount on deposit in the escrow fund, such amount will remain on deposit in the escrow fund until certain conditions are satisfied or until September 1, 2004. On that date, or an extended escrow redemption date, (if established) the moneys remaining in the escrow fund will be used by the trustee to call and redeem CFD No. 99-1 Bonds. The indenture for the CFD No. 99-1 Bonds also provides for the transfer of all amounts on deposit in the escrow fund to be used to redeem the CFD No. 99-1 Bonds on a date earlier than September 1, 2004 (or an extended escrow redemption date) if the trustee receives a notice from CFD No. 99-1 that Talega Associates or any of its affiliates is delinquent in the payment of special taxes levied on its property in CFD No. 99-1 and does not receive a certification from CFD No. 99-1 within 40 days after the initial notice advising that such delinquent special taxes have been paid. Talega Associates' plan for financing the development of the Talega Project assumes that funds will be disbursed from the escrow fund to the project account of the construction and acquisition fund beginning in 2002. See "THE DEVELOPMENT PROJECT - Plan for Financing Development."

The amount of the CFD No. 99-1 Bond proceeds deposited in the escrow fund represents (a) the principal amount of the bonds which mature on September 1, 2029 and which are subject to mandatory redemption from funds which are transferred from the escrow fund to the redemption subaccount on September 1, 2004 or a revised escrow redemption date (the "deemed escrow bonds") plus (b) an amount which when added to investment earnings on the escrow fund, is expected to be sufficient to pay interest on the deemed escrow bonds through September 1, 2004.

Upon satisfaction of the conditions specified in the indenture for the CFD No. 99-1 Bonds, the trustee for those bonds will make disbursements from the escrow fund to the project account, the interest account, the principal account and the reserve account (the "disbursement amounts") not more often than twice during each bond year on any date other than an interest payment date. On or after June 3, 2004 (the "scheduled escrow closing date"), unless an extended escrow redemption date is established, the trustee will make no further disbursements from the escrow fund and on the scheduled escrow redemption date (or the extended escrow redemption subaccount, to be applied to the redemption of the deemed escrow bonds on the scheduled escrow redemption date (or the extended escrow redemption date). The trustee will also transfer all amounts on deposit in the escrow fund to the escrow bonds redemption subaccount on a date earlier than the scheduled escrow redemption date or an extended escrow redemption date (a "special escrow redemption date") to be applied the mandatory redemption of the CFD No. 99-1 Bonds if the trustee receives a notice from CFD No. 99-1 that Talega Associates or any of its affiliates is delinquent in the payment of special taxes levied on property owned

by it in CFD No. 99-1 and does not receive a subsequent certificate from CFD No. 99-1 within 40 days after the initial notice advising that such delinquent special taxes have been paid.

The escrow closing date (and any extended escrow closing date) and the scheduled escrow redemption date (and any extended escrow redemption date) may be extended upon satisfaction of the conditions specified in the indenture for the CFD No. 99-1 Bonds.

In general, funds will be released from the escrow fund to the project account only to the extent that, among other matters, following the disbursement of such funds, (a) the value of all Taxable Property in CFD No. 99-1, as determined by an appraisal or from the County Assessor's assessment roll, will be equal to at least 3 times the principal amount of the outstanding CFD No. 99-1 Bonds, including the amount to be disbursed, and other outstanding bonded indebtedness which is secured by special taxes and assessments levied on property in CFD No. 99-1, (b) the value of Developed Property in CFD No. 99-1 will be equal to at least 31/2 times the portion of the outstanding CFD No. 99-1 Bonds, including the amount to be disbursed, and such other outstanding bonded indebtedness which is allocable to the Developed Property, (b) the value of Near Term Property in CFD No. 99-1 will be equal to at least 3 times the portion of the outstanding CFD No. 99-1 Bonds. including the amount to be disbursed, and such other bonded indebtedness which is allocable to Near Term property, and (c) the value of Undeveloped Property in CFD No. 99-1 will be equal to at least 21/2 times the portion of the outstanding CFD No. 99-1 Bonds, including the amount to be disbursed, and such other bonded indebtedness which is allocable to the Undeveloped Property. Also, the maximum special taxes that may be levied on Developed Property, Near Term Property and Undeveloped Property in each fiscal year must be at least equal to the sum of 110% of the portion of annual debt service on the CFD No. 99-1 Bonds, including the amount to be disbursed, plus the share of Administrative Expenses for each fiscal year that is allocable to such property.

Near Term Property is defined in the indenture for the CFD No. 99-1 Bonds as property in CFD No. 99-1 (i) with respect to which a subdivision map or parcel map creating conveyable parcels has been recorded with the County Recorder, (ii) for which grubbing and clearing are complete, (iii) for which both rough cut and fill are at least 90% complete and grading on a materials moved basis is at least 90% complete, (iv) with respect to which a paved public access road with utilities, other than water and sewer, has been completed to within 100 yards of the site, and (v) with respect to water and sewer utilities, a will-serve letter has been executed by the Water District covering all of the near term property, and (vi) with respect to which no building permit for a residential unit or a non-residential building has been issued.

Pursuant to the indenture for the CFD No. 99-1 Bonds, the trustee will also disburse funds from the escrow fund to the project account if it receives a letter of credit that satisfies certain conditions set forth in the indenture.

The terms which are used in the preceding paragraphs with initial letters capitalized have the same meanings as they do for purposes of the Indenture. See "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Certain Definitions."

Based on the values of Developed Property, Near Term Property and Undeveloped Property in the District as determined by the Appraiser and contained in the Appraisal, Talega Associates would be able to have all of the proceeds of the bonds of CFD No. 99-1 which are on deposit in the escrow fund released for project expenditures. Talega Associates plans to request that all such proceeds be released.

<u>AMP Assessments</u>. The Water District also levies annual assessments on all parcels in its Improvement District No. 7, which includes all of the land in the District, to pay a portion of installment payments for the purchase of capacity in the Allen-McColloch Pipeline, a regional water supply transmission and delivery pipeline (the "AMP Assessments"). In fiscal year 2001-02 the Water District levied AMP Assessments on parcels in the District in the amount of \$49 per parcel.

Improvement Area. Talega Associates has initiated discussion with the School District regarding the initiation of proceedings by the Board of Trustees pursuant to the Act to designate an improvement area over a portion of the District (the "Improvement Area"), to authorize the levy of an additional special tax on property within the Improvement Area (the "Improvement Area Special Tax") and to authorize the issuance of additional bonds of the District which would be secured solely by the Improvement Area Special Tax (the "Improvement Area Bonds") for the purpose of financing roadway improvements of the City of San Clemente, including three bridges over the Segunda Deshecha drainage, and the grading of a public institutional site (the "City Improvements") and additional school facilities of the School District. The Improvement Area would include all of the property in the District except the property in Village I, Village II and the Business Park of the Talega Project. The estimated amount of the Improvement Area Bonds is \$30,000,000. The Indenture contains conditions that would have to be satisfied before the Improvement Area Bonds would be issued. See "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Parity Bonds-Conditions for the Issuance of Improvement Area Bonds."

The possibility of the designation of the Improvement Area has not been presented to the Board of Trustees. Further, in order for the District to issue bonds for the proposed Improvement Area to finance the City Improvements, the City would have to be willing to enter into a joint community facilities agreement with the District.

Talega Associates has indicated that if the School District elects not to proceed with the requested proceedings, it plans to petition the City of San Clemente to establish a community facilities district or an assessment district to finance the City Improvements or to petition the Water District to make changes to its CFD No. 99-1 to finance those improvements. See "SPECIAL RISK FACTORS - Financing Bridge Construction."

The designation of the Improvement Area or the formation of a community facilities district or an assessment district by the City or changes to CFD No. 99-1 to finance the City Improvements could result in the issuance of bonds which would be secured by special taxes or assessments which would be levied on property within the portions of the District which are intended to be included in the Improvement Area which would be at parity with the Special Taxes.

The District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within the District which may be incurred in the future by other governmental agencies, including but not limited to the City, the Water District or any other governmental agency having jurisdiction over all or a portion of the property within the District. Furthermore, nothing prevents the owners of property within the District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the property within the District on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the District to pay the Special Taxes when due. See "SPECIAL RISK FACTORS - Future Indebtedness."

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See "SPECIAL RISK FACTORS - The Appraisal."

Summary of Appraised Values and Certain Public Debt

Table 2 below shows the estimated Value-to-Lien Ratios for the properties which are owned by Talega Associates, including properties which cannot be developed without the issuance of a 404 Permit by the United States Army Corps of Engineers, properties which are owned by the other developer-property owners in the District and properties that are owned by individual homeowners based on the appraised values of those properties and an allocation among those properties of the principal amount of the Bonds and the outstanding bonds of CFD No. 99-1, including the portion of the principal amount those bonds which relates to the proceeds of thereof which are on deposit in an escrow fund, and other outstanding bonded indebtedness which relates to property in the District, including the Water District's AMP Assessments. Table 2 assumes that parcels of Developed Property and Near Term Property are taxed at the Assigned Special Tax Rates for Developed Property as set forth in the Rate and Method of Apportionment of Special Taxes and the rate and method of apportionment of special tax for CFD No. 99-1. The estimated Special Tax amounts for Near Term Property in the District were determined based on estimated square footages of residences and commercial and industrial structures which are expected to be constructed on the parcels which have been determined to be Near Term Property. The estimated Special Tax amounts for parcels of property in CFD No. 99-1 which have been determined to be Near Term Property and which are expected to have commercial and industrial structures constructed thereon were determined based on the acreage of such parcels. For fiscal year 2001-02, Special Taxes were levied only on parcels of Developed Property at the Assigned Special Tax rate for Developed Property. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes."

Table 2 also shows the amount of Special Tax revenues that could be provided if Special Taxes were levied on parcels of Undeveloped Property in the District at the Maximum Special Tax rate for Undeveloped Property. However, Special Taxes were not levied on Undeveloped Property for fiscal year 2001-02.

For purposes of Table 2 and Tables 3 and 4 below, "Near Term Property" is property (i) with respect to which a subdivision map or parcel map creating conveyable parcels has been recorded with the County Recorder, (ii) for which grubbing and clearing are complete, (iii) for which both rough cut and fill are 90% complete and grading on a materials moved basis is 90% complete, (iv) with respect to which a paved public access road with utilities, other than water and sewer, has been completed to within 100 yards of the site, (v) with respect to water and sewer utilities, a will-serve letter has been executed by the Water District covering all of the Near Term Property, and (vi) with respect to which no building permit for a residential unit or a non-residential building has been issued.

Several assumptions were made in compiling Table 2 and Tables 3 and 4 below, as discussed in the footnotes thereto, which should be read in their entirety.

Community Facilities District No. 90-2 (Talega) Value-to-lien Analysis Table 2

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Owner	FY 2001-02 Special Tax ⁽¹⁾	The Bonds ⁽³⁾	CFD No. 99-1 FY 2001-02 Levy ⁽¹⁾	CFD No. 99-1 Bonds ⁽³⁾	MWD FY 2001-02 Levy	MWD Bonds ⁽³⁾	AMP FY 2001-02 Levy	AMP Debt ⁽³⁾	Total Lien	Appraised Value	Estimated Value-to- Lien Ratio
Developed Property BHC Residential	\$ 57.675	\$ 908.982	\$ 112.372	\$ 1,640,603	219 \$	\$ 3353	3,686	\$ 42 064	\$ 2 595 002	\$ 13.210.000	\$ 091
Burke	13,413	214,976	86,020	1,255,876		2,174					2.834
Catellus Residential	5,353	82,021	10,429	152,258	56	277	243	2,773	237,330	2,480,000	10.450
Lennar Homes	21,224	325,224	41,351	603,720	298	1,476	1,552	11,711	948,131	7,835,000	8.264
Lyon Development	8,219	125,950	16,014	233,802	7.5	371	582	6,642	366,765	3,311,000	9.028
Shea Homes	33,616	515,126	65,497	956,236	370	1,832	1,940	22,139	1,495,334	8,835,000	5.908
Standard Pacific	94,152	1,451,298	183,441	2,678,189	964	4,774	3,541	40,409	4,174,671	26,272,754	6.293
Standard Pacific-Senior	0	0	282,781	4,128,536	1,350	989'9	8,700	99,283	V/N	0	A/N
Woodbridge	1,607	24,624	3,131	45,710	20	248	49	559	71,140	872,000	12.257
Individual	605,873	9,284,158	1,180,454	17,234,344	20,619	102,115	33,077	377,469	26,998,085	304,884,636	11.293
Subtotal	\$ 841,132	\$12,932,359	\$ 1,981,489	\$28,929,274	\$24,898	\$123,306	\$ 53,516	\$ 610,715	\$38,361,150	\$371,880,390	9.694
Near Term Property											
BHC Residential	\$ 97,438	\$ 444,130	\$ 189,843	\$ 2,771,665	\$ 737	\$ 3,650	\$ 4,947	\$ 56,454	\$ 3,275,899	\$ 12,726,000	3.885
BRE Properties	83,878	382,323	163,424	2,385,946	878	4,348	49	559	2,773,176	10,235,000	3.691
Ewing	833	3,796	5,805	84,758	32	158	49	559	89,272	288,000	3.226
Lyon Homes	92,273	420,590	182,621	2,624,759	1,067	5,284	3,056	34,875	3,085,508	11,011,000	3.569
Makena	4,809	21,920	33,522	489,409	178	882	49	559	512,770	1,627,000	3.173
Pacific Packaging	1,684	7,674	11,736	171,339	88	421	49	559	179,993	542,000	3.011
Standard Pacific	105,435	480,584	205,425	2,999,160	198	186	4,996	57,013	3,537,738	11,427,246	3.230
Standard Pacific-Senior	0	0	152,373	2,224,612	822	4,071	2,607	63,986	V/N	0	4 /X
Talega	3,815	17,389	26,593	388,246	131	649	146	1,666	407,950	1,110,000	2.721
Talega Affordable ⁽⁴⁾	165,591	298,968	127,794	1,865,759	23	114	49	559	2,165,400	0	4 /Z
Talega Area 2W(5)	20,329	92,660	39,607	578,257	89	337	1,310	14,949	686,203	1,175,483	1.713
Subtotal	\$ 476,085	\$ 2,170,035	\$ 1,135,903	\$16,583,910	\$ 4,219	\$ 20,894	\$ 20,307	\$ 231,740	\$16,713,910	\$ 50,141,729	3.000
Undeveloped Property											
Talega Associates	\$8,141,644	\$ 7,947,606	\$13,173,993	\$21,541,817	\$ 1,403	\$ 6,948	\$ 90,938	\$1,037,768	\$30,534,139	\$ 82,929,517	2.716
Grand Totals	\$9.458.861	\$23.050.000	\$16.291.385	000 550 298	\$30 520	8151 149	192 7918	\$1.880.223	S85 609 199	\$504 951 636	909 4
		antonia.		2006		i i i i i i i i i i i i i i i i i i i	10.150 ·	0001	((1),00,000	000,107,1000	3.676

Assumes that all Developed Property and Near Term Property is taxed at the Assigned Special Tax rate for Developed Property. Undeveloped Property is taxed at the Maximum Special Tax rate. Allocated based on provisions of the Indenture and the indenture for the bonds of CED No. 99-1.

Allocated based on estimated levy for fiscal year 2001-02.

Source: David Taussig & Associates, Inc.

Affordable housing was not valued by the Appraiser.

Value of Planning Area 2W was estimated based on the ratio of the estimated sale price for this property to the estimated total sales prices for all of Talega Associates' property as contained in the Appraisal. €8888

The allocations of bond amounts contained in Table 2 do not represent actual lien amounts for the parcels of property identified in the table. These allocations are made based on the estimated amounts of Special Taxes which could be levied on such properties and the share of annual debt service for the Bonds which is represented by such Special Taxes.

Table 3 below shows the relationship, as a percentage, between the net revenues that would be provided if Special Taxes were levied at the Maximum Special Tax rates on parcels of property in the District which are considered to be Developed Property and Near Term Property and on the portions of the Undeveloped Property owned by Talega Associates which can be developed without the issuance of a 404 Permit by the United States Army Corps of Engineers and estimated annual debt service on the Bonds for all Bond Years (i.e., September 2 of one calendar year to September 1 of the following calendar year). This relationship is referred to in the table as "coverage." Table 3 assumes that these portions of the Undeveloped Property are developed as planned and that Special Taxes are levied on them at the Assigned Special Tax rates for Developed Property which would be applicable if they were so developed. Net Revenues contained in the table are the estimated total revenues from the levy of Special Taxes less an amount equal to the estimated Administrative Expense Cap (as defined in the Indenture) for each fiscal year.

Table 3 also shows the coverage that would be provided from Net Revenues for estimated net annual debt service on the Bonds (i.e., net of estimated annual earnings on the Reserve Account) for all Bond Years. Table 3 also shows the coverage for estimated net annual debt service for all Bond Years that would be provided if Special Taxes were levied at the Maximum Special Tax rates only on Developed Property and Near Term Property.

The Special Tax amounts in Table 3 assume that there will be no delinquencies in the payment of Special Taxes. In fiscal year 2000-01 Special Taxes were levied on 424 parcels of Developed Property in the District. Delinquent Special Taxes for that fiscal year were 2.87% of the total levy. The School District has six active community facilities districts, including the District, where special taxes are annually levied. In fiscal year 2000-01, special taxes were levied on a total of 20,710 parcels in these districts. The weighted average special tax delinquency for these special taxes was 1.39% of the total levy for all districts.

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Community Facilities District No. 90-2 (Talega)
Debt Service Coverage From Special Taxes
Levied on Property Developable Without 404 Permit

Net Debt Service Coverage from Dev. and Near Term ⁽⁸⁾	100.0%	102.4	102.0	8.101	101.7	101.8	101.6	101.3	101.1	101.2	101.1	100.9	100.9	8.001	100.7	100.5	100.4	100.2	1.001	100.0	6.66	6.66	8.66	9.66	99.5	99.5	99.5	99.4	99.4	99.1	
Net Debt Service Coverage ⁽⁷⁾	100.0%	118.2	117.8	117.5	117.5	117.5	117.3	117.0	116.8	116.8	116.7	116.5	116.5	116.4	116.3	116.1	115.9	115.7	115.6	115.5	115.4	115.4	115.3	115.0	114.9	114.9	114.9	114.8	114.6	114.5	
Gross Debt Service Coverage ⁽⁶⁾	%0:001	110.4	110.1	110.1	110.1	110.3	110.3	110.1	0.011	110.2	110.3	110.1	110.3	110.3	110.3	110.2	110.2	110.1	1.0.1	110.1	110.1	110.2	110.2	110.1	110.1	110.2	110.2	110.2	110.2	110.1	
Net Debt Service ⁽³⁾	\$ 1,087,787	1,237,843	1,267,093	1,295,278	1,322,303	1,347,933	1,376,915	1,409,265	1,439,475	1,467,515	1,498,265	1,531,360	1,561,610	1,593,915	1,627,915	1,663,235	1,699,485	1,736,260	1,772,948	1,810,135	1,847,541	1,884,885	1,924,085	1,967,116	2,008,391	2,047,616	2,089,498	2,133,448	2,178,879	2,225,204	\$50,053,196
Reserve Fund Earnings ⁽⁴⁾	,	\$88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	88,165	\$2,556,783
Annual Debt 1 Service	\$ 1,087,787	1,326,008	1,355,258	1,383,443	1,410,468	1,436,098	1,465,080	1,497,430	1,527,640	1,555,680	1,586,430	1,619,525	1,649,775	1,682,080	1,716,080	1,751,400	1,787,650	1,824,425	1,861,113	1,898,300	1,935,706	1,973,050	2,012,250	2,055,281	2,096,556	2,135,781	2,177,663	2,221,613	2,267,044	2,313,369	\$52,609,979
Principal of Bonds		\$ 25,000	55,000	85,000	115,000	145,000	180,000	220,000	260,000	300,000	345,000	395,000	445,000	200,000	260,000	625,000	000'569	770,000	850,000	935,000	1,025,000	1,120,000	1,225,000	1,340,000	1,460,000	1,585,000	1,720,000	1.865,000	2,020,000	7	\$ 23,050,000
Net Tax Revenues ⁽³⁾	\$1,087,787(9)	1,463,563	1,492,788	1,522,514	1,553,160	1,584,084	1,615,506	1,648,157	1,680,773	1,714,727	1,749,066	1,783,790	1,819,318	1,855,760	1,893,005	1,930,742	1,969,701	2,009,040	2,049,178	2,090,226	2,131,651	2,174,404	2,217,843	2,262,299	2.307.438	2.353.482	2,400,849	2 449 007	2 497 956	2,547,806	\$57,855,623
Special Taxes Undeveloped Property ⁽³⁾	-	\$196.307	200,185	204,178	208.329	212,451	216,688	221,054	225,420	229,987	234,598	239.251	243.991	248,889	253.873	258.971	264,199	269.470	274.827	280.343	285.901	291,660	297,434	303,437	309 456	315.632	322,008	128.471	335.021	341,728	\$7,613,758
Special Taxes Developed and Near Term ⁽¹⁾		\$ 1343.756		1 397 927	1 426 014	1 454 439	1.483.281	1.513.254	1 543 227	1.574.372	1 60 \$ 893	1 637 792	1 670 445	1 703 892	1 738 094	1772712	1 808 461	1 844 588	1 88 1 469	1919,144	1 957,196	1,996,419	2 036.358	2 077 129	2118615	2 160 896	2 204 347	2 2 4 8 5 5 2	266,842,2	2,339,266	\$52,121,684
Bond Year	9/1/02	50/1/6	9/1/04	6/1/6	90/1/6	9/1/07	9/1/08	60/1/6	0/1/10	11/1/6	9/1/12	0/1/13	9/1/14	\$1/1/6	9/1/16	0/1/1/	9/1/18	61/1/6	0/1/20	12/1/6	6/1/6	9/1/23	9/1/04	9/1/05	92/1/0	07/1/6	9/1/28	0/1/0	9/1/30	9/1/31	Totals

Maximum Special Tax revenues from levy of Special Taxes on Developed Property and Near Term Property at Assigned Special Tax rates from levy of Special Taxes on Undeveloped Property that can be developed without the issuance of a 404 Permit at Assigned Special Tax rates for Developed Property assuming that such Undeveloped Property that can be developed without the issuance of a 404 Permit at Assigned Special Tax rates for Developed Property assuming that such Undeveloped as currently planned.

Total Serior estimated Annual Developed Administrative Expenses astimated based on assumed investment yield of 4.00%. Estimated Annual Debt Service less Reserve Account carnings.

Total Net Tax Revenues divided by Estimated Annual Debt Service.

Total Net Tax Revenues divided by Estimated Net Debt Service.

Total Net Tax Revenues divided by Estimated Annual Debt Service.

Maximum Taxes From Developed Property, less priority Administrative Expenses (commencing at \$75,000 and escalating annually at 2%), divided by Estimated Net Debt Service.

Comprised of \$780,732 of Special Taxes levied for fiscal year 2001-02, less \$150,000 of Administrative Expenses, plus \$457,054.60 capitalized interest.

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Source: UBSPaine Webber Inc.

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Table 4 below shows the estimated Value-to-Lien Ratios only for the properties which are owned by Talega Associates which can be developed pursuant to the current development plan without the issuance of the 404 Permit. Developed Property and Near Term Property if Special Taxes were levied only on those properties to pay the full amount of annual debt service on the Bonds and the full amount of annual debt service on the outstanding bonds of CFD No. 99-1. The properties that are owned by Talega Associates which can be developed without the issuance of the 404 Permit are all of the property in Village I, Village II, Area G of Village III, the Village Center and the Business Park of the Talega Project. These portions of the project are expected to contain 2.017 residential units (exclusive of the 283 age-restricted units in Area 2C of Village II which are exempt from the levy of the Special Tax). These portions of the project can be developed without grading and filling in drainage areas. Development of the remainder of the project according to the current development plan necessitates grading and filling in drainage areas and, therefore, the issuance of the 404 Permit. The remaining portions of the project are expected to contain 1,441 residential units. These 1,441 residential units include 46 units in Areas 6C and 6E of Village VI which are planned to be developed as age-restricted units and which, if so developed, would become exempt from the levy of the Special Tax. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement."

Community Facilities District No. 90-2 (Talega) Value-to-lien Analysis Property Developable Without 404 Permit

Owner	FY 2001-02 Special Tax ⁽¹⁾	The Bonds ⁽²⁾	CFD No. 99-1 FY 2001-02 Levy [©]	CFD No. 99-1 Bonds ⁽²⁾	MWD FY 2001-02 Levy	MWD Bonds ^{O)}	AMP FY 2001-02 Levy	AMP Debt ⁽³⁾	Total Lien	Appraised Value	Estimated Value-to- Lien Ratio
Developed Property BHC Residential	\$ 57.675	\$ 908.982	\$ 112.372	\$ 1.640.603	\$ 677	\$ 3.353	\$ 3.686	\$ 42.064	\$ 2.595.002	\$ 13.210.000	5.091
Burke			86,020	1,255,876	439	2,174		1,666	1,474,692	4,180,000	2.834
Catellus Residential	5,353	82,021	10,429	152,258	56	277	243	2,773	237,330	2,480,000	10.450
Lennar Homes	21,224	325,224	41,351	603,720	298	1,476	1,552	17,711	948,131	7,835,000	8.264
Lyon Development	8,219	125,950	16,014	233,802	75	371	582	6,642	366,765	3,311,000	9.028
Shea Homes	33,616	515,126	65,497	956,236	370	1,832	1,940	22,139	1,495,334	8,835,000	5.908
Standard Pacific	94,152	1,451,298	183,441	2,678,189	964	4,774	3,541	40,409	4,174,671	26,272,754	6.293
Standard Pacific-Senior	0	0	282,781	4,128,536	1,350	989'9	8,700	99,283	Y/N	0	۷ ۲
Woodbridge	1,607	24,624	3,131	45,710	80	248	49	559	71,140	872,000	12.257
Individual	605,873	9,284,158	1,180,454	17,234,344	20,619	102,115	33,077	377,469	26,998,085	304,884,636	11.293
Subtotal	\$ 841,132	\$12,932,359	\$ 1,981,489	\$28,929,274	\$24,898	\$123,306	\$ 53,516	\$ 610,715	\$38,361,150	\$371,880,390	9.694
Near Term Property											
BHC Residential	\$ 97,438	\$ 444,130	\$ 189,843	\$ 2,771,665	\$ 737	\$ 3,650	\$ 4,947	\$ 56,454	\$ 3,275,899	\$ 12,726,000	3.885
BRE Properties	83,878	382,323	163,424	2,385,946	878	4,348	49	559	2,773,176	10,235,000	3.691
Ewing	833	3,796	5,805	84,758	32	158	49	559	89,272	288,000	3.226
Lyon Homes	92,273	420,590	179,781	2,624,759	1,067	5,284	3,056	34,875	3,085,508	11,011,000	3.569
Makena	4,809	21,920	33,522	489,409	178	882	49	559	512,770	1,627,000	3.173
Pacific Packaging	1,684	7,674	11,736	171,339	82	421	49	559	179,993	542,000	3.011
Standard Pacific	105,435	480,584	205,425	2,999,160	198	186	4,996	57,013	3,537,738	11,427,246	3.230
Standard Pacific-Senior	0	0	152,373	2,224,612	822	4,071	2,607	986'89	∀ / X	0	V/V
Talega Industry	3,815	17,389	26,593	388,246	131	649	146	1,666	407,950	1,110,000	2.721
Talega - Affordable ⁽⁴⁾	165,591	298,968	127,794	1,865,759	23	114	49	559	2,165,400	0	
Talega - Area 2W(5)	20,329	92,660	39,607	578,257	89	337	1,310	14,949	686,203	1,175,483	1.713
Subtotal	\$ 476,085	\$ 2,170,035	\$ 1,135,903	\$16,583,910	\$ 4,219	\$ 20,894	\$ 20,307	\$ 231,740	\$16,713,910	\$ 50,141,729	3.000
Undeveloped Property											
Talega Associates	\$8,141,644	\$ 7,947,606	\$13,173,993	\$21,541,817	\$ 1,403	\$ 6,948	\$ 90,938	\$1,037,768	\$30,534,139	\$ 23,349,517	0.765
Grand Totals	59,458,861	\$23,050,000	\$16,291,385	867,055,000	\$30,520	\$151,149	\$164,761	\$1,880,223	\$85,609,199	\$445,371,636	5.202

Assumes that all Developed Property and Near Term Property is taxed at the Assigned Special Tax rate for Developed Property. Undeveloped Property is taxed at the Maximum Special Tax rate. Allocated based on provisions of the Indenture and the indenture for the bonds of CED No. 99-1.

Allocated based on estimated levy for fiscal year 2001-02.

Alfordable housing was not valued by the Appraiser.

Value of Planning Area 2W was estimated based on the ratio of the estimated sale price for this property to the estimated total sales prices for all of Talega Associates' property as contained in the Appraisal.

Source: David Taussig & Associates, Inc.

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Talega Associates is considering modifications to its business plan for the development of the remainder of its property within the District. Talega Associates advises that with respect to the portions of its property that can be developed without the issuance of a 404 Permit by the United States Army Corps of Engineers, it expects that the total number of residential units to be constructed will be increased from 2,017 units to 2,095 units or by 78 units. The number of units in Area 3G of Village III is expected to be increased from 36 to 38, the number of units in the Village Center is expected to be decreased from 329 to 303, and the land use designation for 4.7 acres of Business Park property in Area BP-9 is expected to be changed to allow the construction of a 102 unit apartment complex. Talega Associates estimates that this increase in units would result in an increase in the taxable square footage of residential property of 67,831 square feet, a decrease in the taxable square footage of non-residential property of 67,562 square feet and an increase in annual Special Tax revenues for Developed Property at build-out of approximately \$19,000.

For the portions of its property that cannot be developed without the issuance of the 404 permit, Talega Associates expects that the number of residential units will be increased from 1,441 to 1,529 units or by 88 units. It is expected that the total taxable square footage in these areas at build-out will be decreased by approximately 320,000 square feet. Talega Associates estimates that this decrease in taxable square footage will result in a decrease in annual Special Tax revenues at build-out of approximately \$110,000. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement" for a description of the portions of the Talega Project that cannot be developed without the issuance of the 404 Permit.

These possible modifications are being considered but have not been approved by Talega Associates. Further, they could not be implemented without the approval of the City and the Talega Joint Planning Authority.

No assurance can be given that the estimated values, amounts and allocations shown in Table 2 and Table 4 will conform to those which are ultimately realized. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes." The District has not undertaken to commission annual appraisals of the market value of property in the District for purposes of its Annual Reports pursuant to the Continuing Disclosure Agreement, and information regarding property values for purposes of a value-to-lien analysis with respect to such property which may be contained in such reports will be based on assessed values as determined by the County Assessor. See Appendix F for the form of the Continuing Disclosure Agreement.

The Teeter Plan

The County has elected to include special taxes levied within community facilities districts within the Teeter Plan method of apportionment and distribution of taxes collected by the County for local government agencies. Pursuant to the Teeter Plan the County apportions to the local agencies 100% of the amount of the taxes which are levied regardless of the amount collected from property owners. The County retains all penalties and interest which are collected with delinquent taxes. Thus, so long as the Special Taxes levied on taxable property within the District are subject to the Teeter Plan, the School District will receive 100% of the Special Taxes which are levied in each fiscal year.

The Special Taxes are allocated and distributed to the School District in installments as they are collected, beginning in November and ending in January with respect to the first installment of the Special Taxes which is due on December 10 of each year, and beginning in March and ending in May with respect to the second installment of the Special Taxes which is due on April 10 of each year.

The District receives reports from the Tax Collector regarding delinquent Special Taxes in February and June of each year. In late June of each year, the District receives a partial advance of estimated delinquent Special Taxes for the fiscal year. In the third week of July of each year, the District receives a final distribution of all delinquent Special Taxes levied for the preceding fiscal year.

The District must comply with the following requirements, among others, in order to have the Special Taxes apportioned and distributed pursuant to the Teeter Plan: (a) it may not separately collect Special Taxes before August 1 following the end of each tax year and (b) if it collects Special Taxes separately after July 31

in any tax year, it must collect penalties and interest at the correct rates (i.e., 10% plus 1.5% of the principal amount per month after June 30) and forward such amounts together with the delinquent Special Taxes to the Tax Collector.

The above-mentioned prohibition on the District separately collecting Special Taxes before August 1 following the end of each tax year could preclude the District from commencing Superior Court foreclosure proceedings to collect delinquent Special Taxes before that date. The District has covenanted, however, that under certain circumstances it will commence such foreclosure proceedings by October 1 following the close of the fiscal year in which the delinquent Special Taxes were due. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

No assurance can be given that the County will continue to include special taxes levied within community facilities districts in the Teeter Plan, and the County could decide to discontinue the inclusion of such special taxes in the Teeter Plan at any time, or to discontinue the Teeter Plan in its entirety. The County has never discontinued the Teeter Plan with respect to any participating agency. See "SPECIAL RISK FACTORS - Teeter Plan Termination."

THE DISTRICT

Location

The District consists of approximately 2,149 gross acres of partially developed land which are located in the southwest part of the School District. The School District is located along of the San Diego Freeway (Interstate 5) in Southern Orange County approximately 60 miles southeast of Los Angeles and approximately 30 miles southeast of Santa Ana, the county seat.

Summary of Formation Proceedings

Pursuant to the Act, on May 21, 1990, the Board of Trustees of the School District (the "Board of Trustees") conducted public hearings and adopted resolutions establishing the District and its boundaries and approving the rate and method of apportionment of special taxes for the District. The Board of Trustees also adopted a resolution determining the necessity of the District incurring a bonded indebtedness in an amount not to exceed \$10,000,000. Both of these resolutions called a special election to submit propositions to authorize the levy of the Special Taxes and incurring the bonded indebtedness to the qualified voters of the District. On June 19, 1990, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$10,000,000 and approved the levy of the Special Taxes on taxable property in the District to pay the principal of, and interest on, such bonded indebtedness.

On April 26, 1999, the Board of Trustees adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the District. At a special election held on June 14, 1999, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 and approved an Amended and Restated Rate and Method of Apportionment of Special Taxes (the "Rate and Method of Apportionment of Special Taxes") to pay the principal of and interest on the Bonds of the District and to pay for certain services to be provided within the District. See Appendix C. The purpose of the indebtedness to be incurred is to finance the acquisition or construction of various public school facilities located in or serving the District as specified therein. On June 15, 1999 an amended Notice of Special Tax Lien was recorded in the office of the County Recorder of the County.

Rate and Method of Apportionment of Special Taxes

The Rate and Method of Apportionment of Special Taxes for the District is contained in Appendix C hereto. The Special Taxes will initially be levied in the District for payment of debt service on the Bonds in

fiscal year 2002-03. The Special Taxes were levied on parcels of developed property in the District in fiscal year 2000-01 and fiscal year 2001-02 to pay administrative expenses and costs associated with the acquisition and construction of school facilities for the District.

Pursuant to the Rate and Method of Apportionment of Special Taxes, the Special Tax will be levied in each fiscal year, commencing in fiscal year 2002-03, on parcels of taxable property in the District to pay debt service on the Bonds and any Parity Bonds, as described below. The terms appearing below with initial letters capitalized are defined terms in the Rate and Method of Apportionment of Special Taxes.

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Expected Tax for Undeveloped Non-Residential Property, respectively:

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel; and

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property. Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

The Assigned Special Tax for each Land Use Class for fiscal year 2001-02 is shown in the following table.

Assigned Special Taxes for Developed Property and Taxable Senior Housing Property For Fiscal Year 2001-02

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3427 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3427 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0623 per square foot of Non-Residential Floor Area

The Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property for fiscal year 2001-02 was equal to \$0.1737 per square foot of the Assessor's Parcel. On each July 1, commencing on July 1, 2002, the Assigned Special Tax and the Backup Special Tax will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

The Maximum Special Tax for Undeveloped Property for Fiscal Year 2001-02 was equal to \$6,426.55 per acre. On July 1, 2002 and on each July 1 thereafter, the Maximum Special Tax for Undeveloped Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

No Special Tax will be levied on up to 1,230.74 acres of Property Owner Association Property, Public Property and/or Religious Property and up to 206.6 acres of Golf Course Property. Also, no Special Tax will be levied on up to 66.02 acres of Senior Housing Property.

The Rate and Method of Apportionment of Special Taxes contains provisions allowing partial prepayment and prepayment in full of the obligation of parcels of taxable property in the District to pay the Special Taxes.

The above discussion is only a summary of some of the operational sections of the Rate and Method of Apportionment of Special Taxes. Investors should rely on this summary only as an aide to a careful review of the Rate and Method of Apportionment of Special Taxes which is contained in Appendix C hereto.

No assurance can be given that developers of property within the District or homeowners will be able and willing to pay the Special Taxes which will be levied on properties within the District. The ability and willingness of such developers to pay such Special Taxes will be lessened if the developers are unable to construct and sell residences and commercial and industrial buildings as currently planned. A delay in the construction and sale of residences and commercial and industrial buildings within the District would have a significant adverse effect on the ability and willingness of the developers to pay the Special Taxes levied on properties within the District. See "THE DEVELOPMENT PROJECT - Property Owners and Developers".

Environmental Review

The Board of Supervisors of the County approved and certified a Final Environmental Impact Report with respect to the Talega Project in compliance with the California Environmental Quality Act (Public Resources Code Section 21000, et seq. ("CEQA") on May 4, 1988. The City Council of the City approved and certified a Final Environmental Impact Report with respect to the Talega Project on August 26, 1988. Since then, the City Council has approved four separate addenda to the Final Environmental Impact Report with regard to subsequent development approvals. The most recent addendum was approved on June 16, 1999 in connection with the approval of the joint powers agreement creating the Talega Joint Planning Authority. Pursuant to CEQA, both the City and the County imposed a series of mitigation measures in connection with the development of the Talega Project to eliminate or reduce to a level of insignificance many significant adverse impacts associated with the development. As to those significant impacts which the City and the County determined could not be eliminated or reduced to a level of insignificance, statements of overriding considerations were adopted pursuant to CEQA finding that the beneficial aspects of the project outweighed the significant adverse impacts which could not be eliminated or reduced by mitigation measures.

Talega Associates believes that full compliance has been had with CEQA with respect to the land use entitlements granted by the City and the County to date and that the statutory period within which a court action or proceeding could be filed challenging either the City's or the County's compliance with CEQA with respect to such entitlements has expired.

It is possible, however, that future discretionary approvals which are necessary to complete the development of the property within the District will necessitate further compliance with the requirements of CEQA. Challenges to such discretionary approvals could affect the rate of development within the District See "SPECIAL RISK FACTORS - Failure to Develop."

The City is currently processing a supplement to its Final Environmental Impact Report, in compliance with CEQA, in connection with the third amendment to the specific plan for the portions of the Talega Project which are located in the City (SPA 98-05). It is expected that the City Council will consider the specific plan amendment in the fourth quarter of 2001. See "THE DEVELOPMENT PROJECT - Development Approvals."

Water Supply

The Water District. The Water District is a constituent Agency of the Municipal Water District of Orange County ("MWDOC"), a wholesale importer of water from the Metropolitan Water District of Southern California ("MWD") and, as such, is entitled to receive water from available sources of MWD. These sources normally include a blend of water imported from the Colorado River and from Northern California. The purpose of MWDOC and MWD has been to deliver water to those member agencies which are connected to their respective distribution systems in amounts sufficient to meet their demands. There is no priority of entitlement for such delivery. In times of reduced imported water, it is assumed that all member agencies will receive a pro rata share based on previous deliveries.

The Water District has sufficient treated and untreated water capacity and transmission capacity to supply the expected development needs of the Water District. Efforts are currently underway to provide additional water supplies for the Water District from sources other than MWD. Treated water is supplied to the Water District through the Allen-McColloch Pipeline ("AMP"). In 1994, MWD purchased the capacity of the Water District and twelve other agencies in the AMP and guaranteed to supply the peak weekly water demands of these agencies from the AMP or other facilities which MWD would build. The Water District's capacity through the turnout on the AMP from which it takes delivery of treated water is 81,066 acre feet per year ("AFY"). An acre foot is approximately 326,000 gallons.

Treated water is also delivered to the Water District through the East Orange County Feeder No. 2 ("EOCF No. 2") and the Aufdenkamp Transmission Main ("ATM") to the Water District's Aufdenkamp Connection Transmission Main. The Water District has a 10,134 AFY capacity share in the EOCF No. 2 and ATM treated water systems

In addition, untreated water could be supplied from MWD's Santiago Lateral through the Baker Aqueduct, formerly called the Santiago Aqueduct Untreated Water System, which ends at the Baker Filtration Plant in the Los Alisos Water District (the City of Lake Forest). The Baker Filtration Plant is an inactive facility. The Water District has 18,379 AFY of capacity in the Baker Aqueduct. However, the Water District does not, currently, have a connection to the Baker Aqueduct. Table 5 below presents the Water District's current and potential future sources of water supply.

Table 5 Santa Margarita Water District Current and Future Water Supply Sources

Existing Treated Wat East Orange County Feeder No. 2 and ATM (AFY)	er Supply Sources Allen-McColloch Pipeline (AFY)	Total (AFY)	Future Water Baker Aqueduct (AFY)	Supply Sources Phase III Augmentation (AFY)(1)
10,134	81.066	91,200	18,379	14,405

This will be an MWD facility which will augment the supply from the Allen-McColloch Pipeline. Source: The Water District.

In addition to these sources of supply, the Water District is investigating alternative water supply sources, including, wastewater reclamation, groundwater and seasonal storage. It is anticipated that these sources will help supplement the Water District's existing water supply sources to meet the ultimate peak demand of the Water District. The Water District makes internal allocations of the above described capacities (both existing and under construction) to various improvement districts, including Improvement District No. 7 which overlies the District.

Metropolitan Water District. MWD is a public agency created in 1928 by vote of the electorates of 13 Southern California cities. MWD's primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. MWD is comprised of 27 member public agencies, including 14 cities, 12 municipal water districts (including MWDOC) and one county water authority. In all, the residents of more than 300 cities and numerous unincorporated communities are served by MWD's member agencies. Member agencies request water from MWD at various delivery points within MWD's system and pay for such water at uniform rates established by MWD's Board of Directors for each class of service. MWD's water is a supplementary source for its members and no member is required to purchase water from MWD.

MWD obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the California Aqueduct. The Colorado River Aqueduct was MWD's original source of water. Owned and operated by MWD, the Colorado River Aqueduct transports water from the Colorado River 242 miles to its terminus at Lake Mathews in Riverside County. After deducting evaporation and seepage losses in transporting and storing water, the amount currently available for delivery by MWD from the Colorado River is approximately 1.2 million acre-feet a year.

MWD's other major source of water is the State Water Project which is owned by the State and operated by the Department of Water Resources. This project transports water from the Sacramento-San Joaquin Delta in Northern California (the "Delta") via the California Aqueduct to four delivery points near the northern and eastern boundaries of MWD. The total length of the California Aqueduct is 444 miles. MWD is one of 29 agencies which have contracted for water service from the State Water Project. MWD's water supply contract, which entitles it to 2,011,500 acre-feet of water annually, expires in the year 2035, but is expected to be extended.

MWD's service area encompasses approximately 5,168 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura in Southern California. More than 17 million people currently reside in MWD's service area. It is estimated that by the year 2020 the six-county area will have a population of 25.2 million people, representing a total increase of 6.7 million over 1996 or an average gain of 282,000 persons per year. Of the total population of the six counties, over 85 percent live within MWD's service area.

Approximately two-thirds of the water supply for MWD's service area is imported water, received by MWD from the Colorado Aqueduct and the State Water Project, and by the City of Los Angeles from its Los Angeles Aqueduct. The balance of the water within the region is produced locally, primarily from groundwater supplies and surface water runoff and, to a lesser extent, from water transfer and exchange programs. MWD currently provides nearly 60 percent of the water used within its service area. Some agencies, including the Water District, rely on the MWD supply for 100 percent of their water needs.

MWD estimates that it can meet its member agency's demands over the next 10 years, even under severe drought conditions. As demands grow, however, it will be necessary to make additional resource and infrastructure improvements in order to maintain reliability and high water quality for the next 20 to 30 years.

MWD projects that during wet and normal years, its supplies should be sufficient to satisfy the demands of its member agencies. However, projected dry year demands and supplies indicate that MWD could encounter supply shortfalls during dry years in the future. A dry year is expected to occur once every 10 years.

MWD expects to be able to meet dry year demands and reliability goals through the year 2020. However, MWD's strategy for meeting these demands and goals makes certain assumptions about water resources development and conservation for the region. MWD cautions that fulfillment of some strategies requires completion of capital improvements and other actions by other agencies within and outside the region, and that since these agencies are not under MWD's direct control, it can give no assurance that any assumed water resource development or capital improvements will occur.

Wastewater Treatment and Disposal

The Water District is a member of the South Orange County Wastewater Authority ("SOCWA"), a joint powers authority, which owns and operates sewage treatment and ocean outfall facilities located between the coastal communities of Dana Point and Capistrano Beach. The Water District presently has 2.25 million gallons per day ("MGD") of capacity in the present 13.0 MGD SOCWA treatment plant. The Water District has acquired 2.25 MGD of capacity in the Moulton Niguel Water District No. 3A sewage treatment facility. SOCWA also has a 64.4 MGD pumped capacity ocean outfall which provides adequate capacity for its member agency needs. The Water District has 28.67 MGD of capacity in this outfall.

Sewage is conveyed from the Water District's collection system to the SOCWA and Moulton Niguel Water District treatment plants through the 15.7 MGD Oso-Trabuco Interceptor Sewer, jointly owned by the Water District and Moulton Niguel Water District, which operates and maintains it. The Water District owns capacity of 9.4 MGD in the Oso-Trabuco Interceptor.

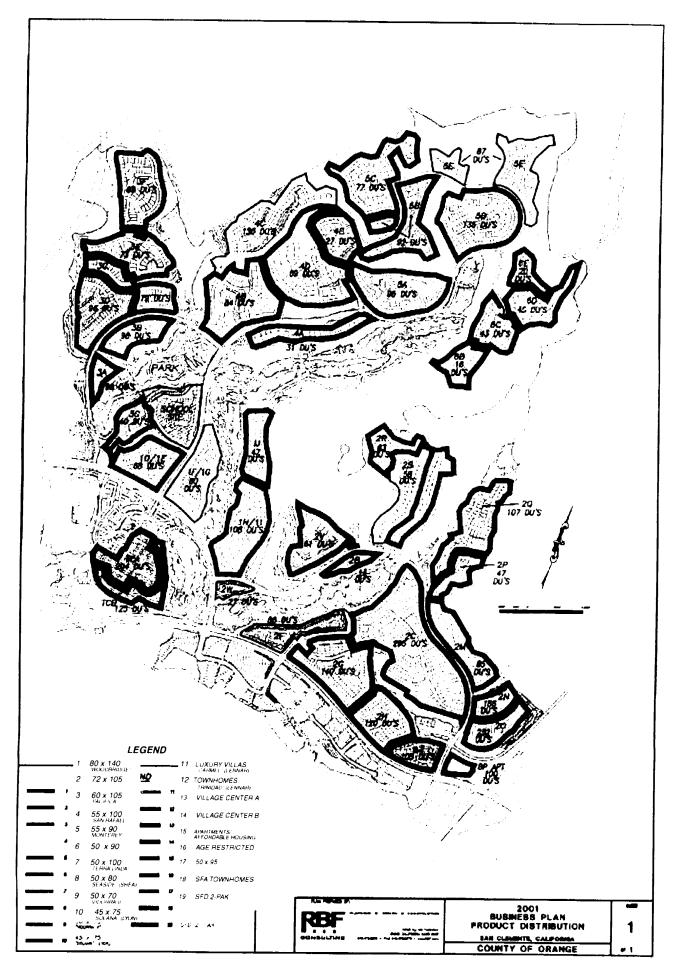
The Water District has constructed an additional subregional treatment plant (the Chiquita Water Reclamation Plant), located in Chiquita Canyon near San Juan Creek, which utilizes the SOCWA ocean outfall for effluent disposal. This plant currently has a treatment capacity of 6.0 MGD. This plant serves Improvement District Nos. 2, 3, 4, 7 and 8 as well as several portions of Trabuco Canyon Water District, a neighboring water district, under a contractual agreement. The Chiquita Water Reclamation Plant has been certified by the Regional Water Quality Control Board to 21 MGD which is sufficient to meet the projected ultimate needs of the Water District, based on current master plan information, through approximately the year 2010. Other wastewater treatment plants such as the OSO Plant, the SOCWA treatment plant and the Moulton Niguel Water District treatment plant all operate independently of the Chiquita Water Reclamation Plant. The Chiquita Water Reclamation Plant has common capacity allocated at 19.49 MGD, which in the opinion of the Water District should meet expected needs until the year 2025.

As outlined above, the Water District currently has 13.5 MGD of total available treatment capacity. The Water District's historical wastewater flow rates are as set forth in Table 6 below:

Table 6
Wastewater Flow Rate - Santa Margarita Water District (1995-2000)

	Average Daily Wastewater
<u>Year</u>	Flow Rate (MGD)
2000	9.75
1999	9.20
1998	8.71
1997	8.33
1996	7.72
1995	6.54

Source: The Water District.



THE DEVELOPMENT PROJECT

The information provided in this section has been included because it may be considered relevant to an informed evaluation and analysis of the Bonds and the District. Currently, a majority of the land within the District is owned by Talega Associates, LLC ("Talega Associates"). As discussed below, since December, 1998, Talega Associates has sold tracts to eight home building entities and has sold parcels to five commercial building entities which, together with Talega Associates, are hereinafter referred to as the "Developers." No assurance can be given that development of the land within the District will occur in the manner or in the configuration or to the density described herein, or that any landowner or the Developers described herein will or will not retain ownership of any of the land within the District. The Bonds and Special Taxes are not personal obligations of any landowners or the Developers. The Bonds are secured solely by the Special Taxes and amounts on deposit in certain of the funds and accounts maintained by the Fiscal Agent under the Indenture. See "SECURITY FOR THE BONDS" and "SPECIAL RISK FACTORS."

Information contained in this section (except under the caption "Market Absorption Study") regarding the Developers, the intended phasing of development of the Talega Project and other matters has been provided by the Developers and the District and the School District make no representations as to the accuracy of such information.

The Talega Project includes property in Area 2C of Village II which will be developed into 283 age-restricted residential units and which is exempt from the levy of Special Taxes. The project also includes property in Areas 6C and 6E of Village VI which is planned to be developed into 46 age-restricted residential units. This property is currently taxable undeveloped property but it will become exempt from the levy of Special Taxes if it is developed as planned. Some of the tables in this section include these age-restricted units in residential unit counts for the Talega Project. If the total of 3,741 residential units is shown, 329 of these units are the age-restricted units.

General

The Talega Project area contains 3,510 acres situated in the inland area of the City of San Clemente generally north of Avenida Pico. Currently, 1,956.9 acres of the property are located in the City of San Clemente and 1,553.1 acres are located in the County of Orange within the City's sphere-of-influence (the "Sphere-of-Influence Area"). The project site consists of valleys, ridges, hilly grasslands and partially improved areas. Grading and development activity has occurred in the southern portions of the project, generally north of Avenida Pico. Grading has been approved for other portions of the project both in the City and the Sphere-of-Influence Area and grading activity is underway.

Elevations range from a high of approximately 910 feet above mean sea level (MSL) in the northern portion of the project area to a low of approximately 210 feet above MSL in the southwestern portion of the site. The Segunda Deshecha drainage crosses the site in a northeasterly to southwesterly direction, with several small tributary drainages connecting to this primary drainage. Stands of oak woodlands are located along the drainage.

The Master Land Use Plan of the Talega Specific Plan (SPA 98-05) provides for a mix of residential, recreational, institutional (school), business park, commercial and open space land uses. The Village Center, located in the southwestern portion of the project site, will include a complementary mix of residential, commercial, business park, a portion of the golf course and open space land uses. Additional business park uses are planned south of Avenida Pico in the southern portion of the project. A championship golf course extends through the northern and eastern portions of the community to serve as the project's recreation corridor. Three neighborhood park sites and a public school site are also expected to be provided within the project and areas of natural open space, including a large open space reserve, are located in and around the periphery of the project.

To accommodate a wide range of residential densities, six residential villages in addition to the Village Center are planned. Village I is comprised of approximately 482 acres and includes several residential

subareas and open space areas located north of the Village Center, a neighborhood park site, the school site and portions of the golf course located within the City. Village II includes portions of the golf course, a neighborhood park, and open space and residential units on approximately 490 acres located primarily within the Sphere-of-Influence Area. Villages III, IV, V and VI, totaling approximately 112 acres, 151 acres, 337 acres and 245 acres, respectively, are located in the northern portion of the project and are generally designated for residential and open space uses. The Village Center includes approximately 143 acres and the Business Park totals approximately 128 acres, including 76.3 net acres of open space.

Each residential Village is further divided into subareas for the purpose of assigning acres and residential dwelling units. The current Village and subarea boundaries are approximate and are subject to revision during subsequent levels of project entitlement. Boundary adjustments will be reviewed as part of the Area Plan and/or tentative tract map review process and will be subject to City approval.

The residential component of the development plan accounts for approximately 995 acres (approximately 668 acres of which are located in the City and approximately 327 acres of which are located in the Sphere-of-Influence Area). Residential uses will be accommodated in four density categories: low density, low-medium density, medium density and medium-high density. A maximum of 2,265 units are designated for development within the City and a maximum of 2,700 units are designated for development in the Sphere-of-Influence Area. Table 7 below contains a residential land use summary for the project as authorized by the Specific Plan.

Table 7
Community Facilities District No. 90-2 (Talega)
Residential Land Use Summary

			A	cres	Dwel	ling Units
F	Residential Designation	Density (units per gross acre)	City	Sphere of Influence	City	Sphere of Influence
L	Residential Low	0-4.5 du/ac	227	11.4	511	14
LM	Residential Low Medium	4.5 - 7 du/ac	382.8	138.3	1,162	679
M	Residential Medium	7 - 15 du/ac	28.2	119.5	239	1,194
MH	Residential Medium High	15 - 24 du/ac	29.4	57.5	353	813
	<u> </u>	Subtotals	667.4	326.7	2,265	2,700
		Totals		994.1	-	1,965

Source: Proposed Specific Plan Amendment (SPA 98-05).

Talega Associates current business plan anticipates fewer dwelling units (i.e., 3,741) than the total number shown in Table 7. The actual number of dwelling units constructed in each residential subarea will be determined during the Area Plan and tentative tract map level of project implementation. For subareas which do not receive the full maximum allowable number of residential units, the "lost units" may be transferred to another subarea as part of the Area Plan or tentative tract map process. Such transfers may occur without requiring an amendment to the Specific Plan provided that the residential density of the receiving area does not increase beyond the maximum density of its residential designation and the minimum number of open space acres is not reduced. Low density areas will not exceed 4.5 dwelling units per gross acre ("du/ac"); Low Medium density areas will not exceed 7.0 du/ac; Medium density areas will not exceed 15.0 du/ac; and Medium/High density areas will not exceed 24.0 du/ac. All dwelling unit transfers must be approved by the City.

The commercial/business areas will be located in the Village Center, south of Avenida Pico, and near the Far East Alignment of the proposed Foothill Transportation Corridor. Approximately 8.9 acres of property is designated for commercial use. Approximately 66.9 acres of property is designated for business park use.

As part of the entitlement process for the Talega Area Plan, Talega Associates and the City reached the following agreements regarding the project's obligations pursuant to the Housing Element of the City's General Plan with respect to affordable housing:

- (a) Prior to issuance of the 500th building permit in the Talega Project, Talega Associates will enter into an option agreement with the City which will offer to dedicate 10 acres of land for affordable, multifamily housing development to a non-profit developer acceptable to the City or to the City, at the City's discretion. The option agreement was entered into on June 7, 2000;
- (b) The site will be delivered in a mass-graded condition with utilities extended to the site, and a crossfall gradient of no greater than 2%, as soon as possible but not later than issuance of the 1,200th building permit. The grading has been completed;
- (c) This site must be able to accommodate a minimum of 186 apartment units with 50% of the units being three and four bedroom apartments; and
- (d) Talega Associates shall pay the development fees and charges identified on the Talega Affordable Housing Fee Matrix attached to Resolution No. 99-19 of the City Council.

Approximately two-thirds of the property, is designated for public facilities and open space uses. Table 8 below show the gross acreages of property which are designated for these uses.

Table 8
Community Facilities District No. 90-2 (Talega)
Public Facilities and Open Space Land Use Summary

	Land Use Designation	City	Sphere of Influence	Totals
Publi	c Facilities			
ES	Elementary School	18.3	0.0	18.3
P	Public and Private Parks ⁽¹⁾	20.1	15.2	35.3
RP	Regional Park	5.5	8.2	13.7
Subto	otal	43.9	23.4	67.3
Open	Space			
GC	Golf Course ⁽²⁾	178.4	44.5	222.9
os	Open Space	423.3	383.5	806.8
os	Talega Reserve(3)	175.0	997	1,172
Subte	otal	776.7	1,425	2,201.7
Total		820.6	1,448.4	2,269

- (1) Approximately 24 acres will be designated for public parks. The remaining acreage will be used for private recreational facilities.
- Approximately 53.9 acres of the golf course and approximately 30.0 acres of the open space are designated within the Village Center.
- (3) The Talega Reserve is not in the District.

Source: Specific Plan Amendment.

The 18-hole championship golf course, which is the predominate recreational feature of the development, extends through the eastern and northern portions of the project. The project includes an approximately 1,172 acre open space conservation area for which an easement was dedicated to The Rancho Mission Viejo Land Conservancy, a non-profit corporation, for the express purpose of preserving the reserve area for educational, ecological, recreational, scenic and conservation purposes.

Development Approvals

The City Council of the City approved the original "Champion Hills" Specific Plan for the portion of the Talega Project which is within the City on August 10, 1988. An amended Specific Plan referred to as the Talega Specific Plan (SPA 91-58) was approved by the City Council on July 1, 1992. The amendment was intended to bring the Specific Plan into compliance with the comprehensive General Plan, the Growth Management Program and the Urban Design Program. The City's General Plan was updated in May 1993, and generally reflected the approved 1992 Specific Plan. The Specific Plan was amended again in 1998 (SPA 98-03). This amendment allowed for variations in residential architecture and minor modifications to residential building setbacks in development standards. The City Council approved this second amendment to the Specific Plan on November 18, 1998.

In 1998, the first Area Plan for the Talega Project was submitted to the City. The purpose of an Area Plan is to establish more detailed development plans for portions of the overall project to expand upon and supplement the guidance provided by the Specific Plan. This Area Plan, which is for Planning Areas B, C, G, H and I and parts of Planning Areas D and E, covers a 713.2-acre portion of the project, including the Village Center, the golf course, two neighborhood park sites, an elementary school site, a portion of the business park area south of Avenida Pico, and various residential subareas and open spaces. The City Council approved this Area Plan (98-82) on March 17, 1999.

Implementation of the Specific Plan for other Planning Areas will require the preparation of additional Area Plans which must be approved by the Planning Commission and City Council prior to or concurrent with the approval of any tentative tract map, tentative parcel map, site plan, planned unit development and/or conditional use permit.

A third amendment to the Specific Plan (SPA 98-05), which was filed on September 30, 1998, is expected to be considered by the City Council in the fourth quarter of 2001. This amended plan was prepared to respond to geotechnical issues, to reduce grading quantities by more appropriately responding to the physical conditions of the site, and to define an updated development concept for the property. This amended plan anticipates annexation of the Sphere-of-Influence Area to the City and establishes development standards and phasing for buildout.

The portion of the project located within the Sphere-of-Influence Area is known as the Rolling Hills Planned Community. A Feature Plan was approved by the County Board of Supervisors in May 1988 and has been amended five times, most recently in July 2000. This fifth amendment to the Feature Plan (FPA 00-45) was submitted to eliminate the health facilities land use designation and expand two medium high density residential areas. The golf course area was redesigned and shifted northerly in order to incorporate elements of the drainage as an amenity in the golf course. The previous plan would have eliminated the drainage feature through grading and residential development.

Talega Associates has entered into development agreements with the City and the County. These agreements provide Talega Associates and the other Developers with a vested right, subject to certain exceptions, to develop the project in accordance with the land use regulations of the City and the County which were in effect at the time of the execution of the development agreements. The City and the County have reserved all of their police powers which cannot be limited by contract. Further, both the City and the County may adopt future land use regulations which may be in conflict with the land use regulations which were in effect on the dates of the development agreements which are designed to protect the public health and safety.

Annexation of Sphere-of-Influence Area

The development agreement between the City and Talega Associates provides, in part, that Talega Associates will file with the Orange County Local Agency Formation (LAFCO) a petition for the annexation of the Sphere-of-Influence Area to the City and will diligently pursue such annexation proceeding to conclusion, and that the City will cooperate in the processing and approval of the annexation petition. The agreement contemplates that LAFCO's approval will be conditioned so that the annexation of any individual residential lot will occur after the date a building permit for a residential unit on the lot has been issued and before the date that a certificate of occupancy has been issued for a building on the lot or final inspection of the building has been approved by the City authorizing occupancy. The City, as the "conducting authority," will not approve and order the annexation unless such a condition on annexation of the Sphere-of-Influence Area is approved by LAFCO. Talega Associates has filed annexation petitions with LAFCO for the annexation of the Business Park area, a portion of the golf course and most of the residential areas in Village II. As of August 22, 2001, 23 annexations totaling 442.77 acres had been completed.

Talega Joint Planning Authority

In order to insure that the City's development standards will be followed for all development approvals that will be approved for portions of the Talega Project which are located in the Sphere-of-Influence Area, the

City and the County have entered into a joint exercise of powers agreement establishing the Talega Joint Planning Authority, a joint powers authority (the "Authority"). The Authority is authorized to exercise the police powers of the City and the County to regulate the planning and development of the Sphere-of-Influence Area. Specifically, the Authority will have jurisdiction over and power with respect to (1) the adoption and amendment of a general plan, specific plan, and zoning ordinance applicable to the property, (2) the power to process and approve, conditionally approve, and deny area plans, tentative and final subdivision maps, parcel maps, conditional use permits and variances, grading permits, site plans and/or architectural reviews ... and similar development and building plans and permits, (3) the adoption, enforcement and implementation of requirements for the dedication of land, the levying and collection of development and building fees ... and other exactions and charges imposed upon development and building, and (4) to enforce all federal, state and local laws, rules and regulations that are within the jurisdiction of the City or the County to enforce with respect to the matters referred to above.

The agreement incorporates existing land use regulations and development standards of the City, which are set forth in an exhibit thereto, to be applicable to the development and planning of the property on the effective date of the agreement (without the need for execution of any other document or the taking of any further action by the County, the City or the Authority). The agreement also provides (a) that with respect to certain tentative maps which were approved by the County before the effective date of the agreement, the powers of the Authority with respect to discretionary development standards shall be exercised in the manner the County exercises its authority on the effective date and (b) that, subject to certain exceptions and limitations, the Rolling Hills Feature Plan approved by the Board of Supervisors on May 4, 1998 shall be applicable to the development of the property.

The board of directors of the Authority consists of three members appointed by the City Council and two members appointed by the Board of Supervisors of the County. The agreement also established a planning commission to act as an advisory agency to the board of directors. The planning commission performs all of the functions that otherwise would be performed and has all of the duties and responsibilities that would be possessed by the Planning Commission of the City if the Sphere-of-Influence Area were located in the City's boundaries. The planning commission is comprised of five members, two of which are City staff members, two of which are County staff members and one of which will be a staff representative from the Orange County Fire Authority.

The agreement provides procedures for the issuance of building permits and occupancy certificates and the annexation of property to the City which are summarized as follows:

- (a) The Authority will not issue a building permit for any building (other than a model home) in the Sphere-of-Influence Area unless (i) a petition for annexation into the City has been certified as sufficient by LAFCO, and (ii) the City Manager has approved the phasing plan to be submitted by the master developer of the Talega Project (i.e., Talega Associates); and
- (b) The Authority will not authorize the permanent occupancy of model homes within any portion of the Sphere-of-Influence Area for which the annexation into the City has not been completed.

A petition for the annexation of property to a city will not be certified by LAFCO as being sufficient unless it satisfies certain conditions (i.e., the property must be contiguous to the city and within its sphere of influence, as established by LAFCO). As of October 1, 2001, petitions for the annexation of a total of 608 acres of land had been certified as sufficient. Pursuant to State law, if a petition is signed by the owners of all of the property to be annexed, LAFCO may approve the annexation without notice and hearing and without proceedings by the City, as conducting authority, to complete the annexation.

The agreement specifically provides that the Authority shall not have the power to implement or enforce the provisions of the City's municipal code or any regulation, rule, or official policy of the City adopted pursuant thereto, which implement the provisions of the Measure B growth control initiative. See "Growth Control Initiative" below. The agreement further provides that in regard to controls on the timing and phasing of development (whether based upon a limit on the number of residential building permits, such as exists under

the City's municipal code, or otherwise), the powers of the Authority shall be exercised in the manner the County exercises its authority on the effective date of the agreement.

Development Plan

The development of the project is expected to occur in several phases and sub-phases which are based on establishing a balanced earthwork operation in each phase. Phase I of the portion of the project which is located in the City includes the Village Center, a portion of the golf course and several residential subareas located north of the Village Center which have existing approved tentative or final maps. Phase II encompasses a majority of the southern Sphere-of-Influence Area north of Avenida Pico. One residential subarea and one golf course subarea located in the City and adjacent to the Sphere-of-Influence Area also will be developed as Phase II. Phase III consists of the remainder of the golf course, two neighborhood park sites, the proposed school site, and several residential subareas west of Avenida Talega. The remaining project area consisting predominantly of residential subareas will be developed as part of Phases IV, V and VI. Phase VII includes the proposed business park area south of Avenida Pico.

Table 9 below shows Talega Associates' estimate of the number of residential units of each type which Talega Associates expects to be developed in each Phase of the project.

Table 9
Community Facilities District No. 90-2 (Talega)
Expected Residential Units in Phases of Development

Density Category	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI	Phase VII	Totals
Low	47	60	67	191	206	124	0	695
Low Medium	256	581	476	133	183	0	0	1,629
Medium	0	455	0	0	97	0	329	881
Medium High	0	536	0	0	0	0	0	536
Totals	303	1,632	543	324	486	124	329	3,741

Talega Associates plans to improve lots for single family detached homes to "blue top" condition and to sell such lots to merchant builders who will construct and sell homes thereon. Blue top condition refers to a parcel of property which has legal entitlements created by the approval of a tentative tract map or a site plan and which has been rough graded with streets cut out and individual lots terraced with utilities supplied to the property line only. Talega Associates also plans to improve parcels of land for single family attached and multifamily residential units to "super pad" condition and to sell such parcels to merchant builders who will construct such residential units thereon. Super pad condition refers to a mass graded parcel which has legal entitlements created by the approval of a tentative tract map or a site plan with no streets cut or terracing and with utilities supplied to the property line only.

As of July 1, 2001, the merchant builders had commenced home production in 16 projects. Construction of the golf course has been completed and it opened for play on January 4, 2001. Construction of the clubhouse is expected to be finished in October 2001.

Talega Associates is considering modifications to its business plan for the development of the remainder of its property within the District. Talega Associates advises that with respect to the portions of its property that can be developed without the issuance of a 404 Permit by the United States Army Corps of Engineers, it expects that the total number of residential units to be constructed will be increased from 2,017 units to 2,095 units or by 78 units. The number of units in Area 3G of Village III is expected to be increased from 36 to 38, the number of units in the Village Center is expected to be decreased from 329 to 303, and the land use designation for 4.7 acres of Business Park property in Area BP-9 is expected to be changed to allow the construction of a 102 unit apartment complex. Talega Associates estimates that this increase in units would result in an increase in the taxable square footage of residential property of 67,831 square feet, a decrease in the taxable square footage of non-residential property of 67,562 square feet and an increase in annual Special Tax revenues for Developed Property at build-out of approximately \$19,000.

For the portions of its property that cannot be developed without the issuance of the 404 permit, Talega Associates expects that the number of residential units will be increased from 1,441 to 1,529 units or by 88 units. It is expected that the total taxable square footage in these areas at build-out will be decreased by approximately 320,000 square feet. Talega Associates estimates that this decrease in taxable square footage will result in a decrease in annual Special Tax revenues at build-out of approximately \$110,000. See "404 Permit and Streambed Alteration Agreement" below for a description of the portions of the Talega Project that cannot be developed without the issuance of the 404 Permit.

These possible modifications are being considered but have not been approved by Talega Associates. Talega Associates cautions that the business plan for the development of the remainder of its property, including product mix, type, density and square footage of residences, is subject to change at any time to reflect market conditions and other factors. Further, theses modifications could not be implemented without the approval of the City and the Talega Joint Planning Authority.

Property Owners and Developers

Talega Associates purchased all of the land, except the Talega Reserve, in the District (a total of 2,390 acres) in May 1997. The members of Talega Associates are Catellus Residential Group, Inc., Standard Pacific of Orange County, Inc. and JKS Holdings LLC.

Catellus Residential Group, Inc. is a wholly-owned subsidiary of Catellus Development Corporation ("NYSE:CDX"). Catellus Development Corporation, formerly the Santa Fe and Southern Pacific Railway Land Company, is the entity that owns and manages the entire former railway real estate portfolio. With more than \$2,000,000,000 in assets, Catellus Development Corporation is actively pursuing development of its diverse real estate portfolio, including extensive residential properties throughout the Western United States. Based in Irvine, California, with offices in Colorado, Texas, Illinois, Minnesota and Washington, Catellus Residential Group has built more than 15,000 attached and detached homes in a variety of market environments over the last 10 years and currently has a land portfolio that can support up to 21,000 units. Catellus has broad experience in planning, developing and marketing large-scale mixed-use projects throughout the Western United States.

Standard Pacific of Orange County, Inc. ("Standard Pacific") is a wholly-owned subsidiary of Standard Pacific Corp. ("NYSE:SPF"). Standard Pacific Corp., which commenced its home building operations in 1966, is headquartered in Irvine, California and is one of the nation's largest publicly owned home building companies. Its seven divisions have built more than 37,000 homes over the past three decades. It is currently selling homes in over 60 communities in the major metropolitan markets in California, Arizona and Texas. Standard Pacific is currently selling homes in 20 communities in Southern California.

JKS Holdings LLC is a privately held Connecticut limited liability company which was organized in 1997. In connection with the Talega Project, is has loan commitments from Starwood Opportunity Fund IV for \$20,000,000. Based in Phoenix, Arizona, the principals of JKS have over 50 years combined experience in real estate development and since 1976 have developed and built property with a value in excess of \$600,000,000.

Since December 1998, Talega Associates completed transactions with eight home building entities for the sale of tracts in the Talega Project. The builder entities which purchased these tracts are: BHC Residential, LLC, Shea Homes Limited Partnership, Talega Village, LLC, Woodbridge Development, Inc., BRE Properties, Inc., Lennar Homes of California, William Lyon Homes, Inc., and Standard Pacific of Orange County, Inc. Table 10 below provides relevant information regarding the tentative tract numbers and number and size of lots which were purchased by each of these builders, the planning areas where these lots are located and the types of residences which are expected to be built on these lots.

Table 10 Community Facilities District No. 90-2 (Talega) Sales to Builders

<u>Builder</u>	Tentative Tract No.	Planning <u>Area</u>	Number of Lots/Units	Min. Lot Size/Density	Type of Residence
ВНС	15756	ID/E	68	5,000 s.f.	detached
	13686	IF/G	80	5,500 s.f.	detached
	15953	2 M	85	3,500 s.f.	detached
	15954	2 P	47	3,500 s.f.	detached
	14224	2S	28	6,600 s.f.	detached
	15955	2S	30	6,600 s.f.	detached
Shea	15798	2 G	140	4,250 s.f.	detached
BRE	13898	20	252	25 units per acre	attached
Lennar	13894	21	105	12.8 units per acre	attached
	13878	2F	86	3,150 s.f.	attached
Lyon	15799	2H	120	3,150 s.f.	detached
	15955	2R	16	9,567 s.f.	detached
	14224	2R	45	8,310 s.f.	detached
Standard Pacific	13683	1 H /I	108	4,950 s.f.	detached
	13684	1J	47	6,000 s.f.	detached
	13880	2 V	61	6,300 s.f.	detached
	14226 and 15954	2Q	107	5,000 s.f.	detached
Woodbridge	15868	2B	14	6,300 s.f.	detached
Talega Village ⁽¹⁾	15921	2C	70	4,500 s.f.	detached
	15921	2 C	75	4,750 s.f.	detached
	15967	2C	41	N/A	attached
	15967	2C	97	5,775 s.f.	detached
Total Lots/Units			1,722		

The homes to be built in Tracts 15921 and 15967 are age-restricted units which are exempt from the levy of the Special Tax.

Lennar. Lennar Homes of California, Inc. ("Lennar") is a subsidiary of Lennar Corporation. Lennar is one of the largest home builders in California. Lennar's two projects in the Talega Project are Trinidad at Talega, which contains 105 attached homes ranging in size from 1,367 to 1,876 square feet with base sales prices ranging from \$246,000 to \$282,000, and Carmel at Talega, which contains 86 attached homes ranging in size from 2,014 to 2,380 square feet with base sales prices ranging from \$355,000 to \$360,000. Lennar's actual and projected escrow closings for the sale of completed homes are: Trinidad - 60 through 2000 and 45 in 2001 and Carmel - 20 through 2000 and 66 in 2001. Lennar will finance the development and construction of its projects with internally generated funds.

Shea Homes. Shea Homes Limited Partnership ("Shea") is an operating division of J.F. Shea Co., Inc., a leader in the heavy construction industry, specializing in underground work. Shea is engaged in home building and mixed-use community development throughout California and in Denver, Colorado and Phoenix, Arizona. Shea's project in the Talega Project, Seaside at Talega, will contain 140 single family detached homes ranging in size from 2,225 to 2,666 square feet with base sales prices ranging from \$393,000 to \$418,000. Shea's actual and projected escrow closings for the sale of completed homes are: 68 through 2000 and 72 in 2001. Shea will finance the development and construction of its project with internally generated funds.

BHC Residential, LLC, a Delaware limited liability company ("BHC"), is owned equally by BHC Residential, Inc., and Catellus Residential Group. BHC recently acquired the assets of the Merchant Housing Division of Catellus Residential Group, and is completing the build-out of four projects in the Talega Project: Terra Linda which contains 68 detached homes ranging in size from 2,406 to 2,839 square feet with base sales prices ranging from \$410,000 to \$446,000; San Rafael which contains 80 detached homes ranging in size from 3,116 to 3,536 square feet with base sales prices ranging from \$516,000 to \$549,000; Farralon Ridge which contains 132 detached homes ranging in size from 1,871 to 2,344 square feet with base sales prices ranging from \$340,000 to \$380,000; and Cantabria which contains 58 detached homes ranging in size from 2,842 to 3,680 square feet with base sales prices ranging from \$550,000 to \$600,000. Construction of the Farralon Ridge model homes was completed in February 2001 and construction of the model homes in the Cantabria project is expected to be completed in November 2001. BHC's actual and projected escrow closings for the sale of completed homes are: Terra Linda - 59 in 2000 and 9 in 2001; San Rafael - 71 in 2000 and 9 in 2001; Farralon Ridge - 39 in 2001, 54 in 2002 and 39 in 2003; Cantabria - 49 in 2002 and 9 in 2003. BHC will finance the development and construction of its projects with a secured line of credit with Bank of America.

Standard Pacific. Information concerning Standard Pacific is provided above. Standard Pacific has four projects in the Talega Project: Pacifica which contains 47 detached homes ranging in size from 3,498 to 4,124 square feet with base sales prices ranging from \$557,000 to \$617,000; Monterey which contains 108 detached homes ranging in size from 2,692 to 3,100 square feet with base sales prices ranging from \$444,000 to \$480,000; Pacifica Summit which contains 61 detached homes ranging in size from 3,542 to 4,188 square feet with base sales prices ranging from \$547,000 to \$627,000; and Miraleste which contains 107 detached homes ranging in size from 2,746 to 3,218 square feet with base sales prices ranging from \$469,000 to \$510,000. Standard Pacific completed the construction of model homes in the Pacifica Summit project in May 2001 and completed construction of the model homes in the Miraleste project in September 2001. Standard Pacific's actual and projected escrow closings for the sale of completed homes are: Pacifica - 38 in 2000 and 9 in 2001; Monterey - 88 in 2000 and 20 in 2001; Pacifica Summit - 51 in 2001 and 16 in 2002; and Miraleste - 55 in 2002 and 52 in 2003. Standard Pacific will finance the development and construction of its projects through a revolving line of credit with a syndicated group of banks of which Bank of America is the lead agent.

Lyon. William Lyon Homes, Inc. ("Lyon") is located in Newport Beach, California. It has two projects in the Talega Project: Solana which contains 120 detached homes ranging in size from 1,676 to 2,097 square feet with base sales prices ranging from \$294,000 to \$339,000 and Montellano which contain 61 detached homes ranging in size from 4,156 to 4,671 square feet with base sales prices ranging from approximately \$635,000 to approximately \$715,000. Lyon began construction of the model homes in the Montellano project in July 2001. Lyon's actual and projected escrow closings for the sale of completed homes are: Solana - 91 in 2000 and 29 in 2001; Montellano - 47 in 2002 and 14 in 2003. Lyon will finance the development and construction of its project with loans from Guaranty Bank, Weyerhaeuser Realty Investors and Residential Funding Corporation.

<u>Woodbridge</u>. Woodbridge Development ("Woodbridge") is located in Mission Viejo, California. Its project in the Talega Project, Vizcaya at Talega, contains 14 detached homes ranging in size from 4,689 to 5,484 square feet with base sales prices ranging from \$930,000 to \$1,350,000. Woodbridge projects escrow closings for the sale of all 14 completed homes in 2001. Woodbridge will finance the development and construction of its project with loans from MKA Capital and U.S. Bank.

Talega Village LLC. Talega Village LLC is made up of two members, Catellus Residential Group and Standard Pacific. It has one project in the Talega Project which contains 283 homes in four neighborhoods which are restricted to buyers who are 55 years or older. These homes are exempt from the levy of the Special Tax. Three of the neighborhoods have 242 detached homes ranging in size from 2,032 to 3,364 square feet. Base sales prices are projected to range from \$435,000 to \$589,000. The project will also contain a single family neighborhood containing 41 attached homes ranging in size from 1,578 to 2,045 square feet with base sales prices ranging from \$338,000 to \$385,000. Construction of the model homes for these product lines has been completed. Talega Village will finance the development and construction of its projects through a revolving line of credit with a syndicated group of banks of which Union Bank is the lead bank.

<u>BRE Properties</u>. BRE Properties, Inc. ("BRE") (NYSE BRE), with headquarters in San Francisco, California, is a self-administered equity real estate investment trust focused on the development, acquisition and management of multi-family apartment communities in 10 metropolitan markets in the western United States. As of December 31, 2000, BRE's portfolio had real estate assets with a book value of approximately \$1.7 billion that included 72 wholly or majority-owned apartment communities, aggregating 20,195 units; 21 multi-family communities owned in partnerships, comprised of 4,815 apartment units, and 12 apartment communities in various stages of construction and development totaling 2,839 units. BRE has one 252-unit apartment project in Talega that will feature units averaging 971 square feet in size. Construction is scheduled to commence in October 2001 and units are expected to be ready for occupancy in October 2002.

See Table 12 for information regarding homes sold and escrows closed by each of these residential builders as of August 26, 2001.

Table 11 below shows Talega Associates' estimated absorption schedule for the sale of lots to home builders.

Table 11 Community Facilities District No. 90-2 (Talega) Developer's Lot Sales Absorption Schedule

Phase	Total <u>Units</u>				Absor	otion by	Year Tot	<u>als</u>		<u>Totals</u>
		1998	<u>1999</u>	<u>2000</u>	<u>2001</u>	2002	<u>2003</u>	<u>2004</u>	<u>2005</u>	
1	303	155	148							303
2 A	748	451	14	283						748
2B	884			857					27	884
3	543					543				543
4	324						324			324
5	486							486		486
6	124								124	124
Village Center	<u>329</u>		_		<u>329</u>					<u>329</u>
Totals	3,741	606	162	1,140	329	543	324	486	151	3,741

A delay in the issuance of the 404 Permit by the United States Army Corps of Engineers or in the issuance of the 401 certification by the California Regional Water Quality Board, San Diego Region, or in the extension of the Section 1603 Agreement by the California Department of Fish and Game could result in the absorption schedule set forth in Table 11 being extended. See "404 Permit and Streambed Alteration Agreement" below.

Table 12 below shows home sales activity by the residential builders as of August 26, 2001.

Table 12 Community Facilities District No. 90-2 (Talega) Residential Builders' Home Sales as of August 26, 2001

<u>Builder</u>	Project	Tract	<u>Units</u>	<u>Sales</u> Began	Homes Sold	Escrows Closed	Homes Unsold
ВНС	Terra Linda San Rafael	15756 13686	68 80	7/18/99 7/18/99	68 80	68 76	0
	Farralon Ridge	15953 & 15954	132	2/24/01	45	20	87
	Cantabria	14224 & 15955	58	NA	0	0	58
Shea	Seaside	15798	140	10/23/99	137	100	3
BRE		13898	252		0	0	252
Lennar	Trinidad Carmel	13894 13878	105 86	12/4/99 12/11/99	105 80	99 75	0 6
Lyon	Solana	15799	120	8/27/99	120	120	0
	Montellano	15955 & 14224	61	NA	0	0	61
Standard	Monterey	13683	108	7/30/99	108	108	0
Pacific	Pacifica Pacifica Summit	13684 13880	47 61	7/30/99 1/13/01	44 48	39 6	3 13
	Miraleste	14226 & 15954	107	N/A	0	0	107
Woodbridge	Vizcaya	15868	14	6/24/00	14	14	0
Talega Village	Wavecrest Waterleaf Seagarden Sandbridge	15291 15291 15967 15967	70 75 41 97	N/A 4/28/01 4/28/01 4/28/01	0 32 37 34	0 0 0 0	70 43 4 63
Totals			1,722		952	725	770

The homes to be built in Tracts 15921 and 15967 are age-restricted units which are exempt from the levy of the Special Tax.

<u>Commercial Builders</u>. During the calendar year 2000, Talega Associates completed transactions with five commercial building entities for the sale of properties in the Talega Project. The building entities which purchased these properties are Makena Properties, Burke Talega LLC, Talega Industrial Park, Inc., Ewing Irrigation Products, Inc., and Pacific Packaging Machinery Co., Inc. In August 2001, Talega Associates completed a second transaction with Makena Properties. Table 13 below provides relevant information regarding tentative tract or parcel map numbers, planning areas and the number of acres that were purchased by each of these builders.

Table 13
Community Facilities District No. 90-2 (Talega)
Sales to Commercial/Industrial Builders

Builder	Tentative Tract No.	Planning Area	Acres
Makena	2000-223 (Parcel Map)	BP1	5.37
Makena	13917	BP2B	6.10
Burke	16124	BP1	13.78
Talega Industrial	16071	BP2A	4.26
Ewing	15917	BP2A	0.93
Pacific Packaging	15917	BP2A	1.88
Total Acres			32.32

Makena Properties ("Makena"), is based in Mission Viejo, California and owns and manages approximately 1,000,000 square feet of office and industrial buildings in Orange County. Makena played a large role in the disposition of 230 acres of land in Pacific Commercentre, Lake Forest and Phase I of the Talega Business Park. Makena purchased 5.37 acres in the Talega Business Park in December 2000. Makena plans to construct four small office buildings, ranging from approximately 4,320 square feet to 8,264 square feet in size, that will comprise the Makena Office Plaza at Talega and, on adjoining property, a medical office building and a day care facility. Makena purchased an additional 6.1 acre site in Phase II of the Talega Business Park in August 2001. Makena has entered into a long term lease with Quest Diagnostics Inc. (NYSE:DGX) for a 90,000 square foot build-to-suit building on this site.

Burke-Talega, LLC is a part of Burke Real Estate Group ("Burke"), which is headquartered in Santa Ana, California and has developed approximately 6,000,000 square feet of industrial and research and development ("R&D") buildings in the last 30 years. Burke purchased 13.78 acres in Talega Business Park in December 2000. Burke plans to build two office/flex-tech buildings totaling approximately 65,000 square feet, four multi-tenant buildings totaling approximately 50,000 square feet, and nine R&D buildings totaling approximately 102,000 square feet.

Talega Industrial Park, Inc. ("Talega Industrial"), is a developer based in Los Angeles. Talega Industrial purchased 4.26 acres in Talega Business Park in September 2000 and plans to build a new project, San Clemente Technology Park at Talega, which will contain 11 industrial buildings ranging from approximately 3,641 square feet to approximately 6,809 square feet in size. This project offers contemporary architectural design, private yards, fee simple ownership, and grade level loading.

Ewing Irrigation Products, Inc. ("Ewing") is a leading distributor of irrigation, industrial and golf products. Ewing is headquartered in Phoenix, Arizona and currently has 89 facilities in 12 states. Ewing purchased 0.93 acres in Talega Business Park in September 2000. Ewing plans to construct an approximately 10,000 square foot building with a large yard area. Completion of the construction is anticipated by August 2002.

Pacific Packaging Machinery Co., Inc. ("Pacific Packaging"), will be moving to Talega Business Park from Covina. It designs and manufactures filling equipment for the packaging industry. Its clients include consumer product companies such as Kraft Foods, Procter & Gamble, Nabisco Foods and Neutrogena. Pacific Packaging purchased 1.88 acres in December 2000. It plans to build an approximately 27,000 square foot corporate headquarters building with completion scheduled for late 2001.

Plan for Financing Development

Talega Associates has obtained a \$15,000,000 term loan (the "Term Loan") and a \$35,000,000 revolving loan (the "Revolving Loan") from Housing Capital Company (the "Lender") both of which mature on July 15, 2002. These loans are an extension and restructuring of an earlier loan which had previously been extended to July 15, 2001. Talega Associates plans to use these loans, proceeds of the Bonds, proceeds of the outstanding bonds of CFD No. 99-1 of the Water District, including those on deposit in the escrow fund, proceeds of additional bonds of CFD No. 99-1 which are projected to be issued in 2002, revenues from the sale of lots to merchant builders and revenues from profit participation in the sale of homes by the merchant builders to finance the costs of the development of the Talega Project.* The Term Loan and the Revolving Loan are secured by a deed of trust on the portions of the property comprising the project site which are owned by Talega Associates (the "Talega Property").

Pursuant to the loan agreement between Talega Associates and the Lender, the amount which may be outstanding at any time under the Revolving Loan cannot exceed the amount of the Available Commitment which is currently not more than \$32,042,316.70 and cannot be greater than \$34,200,000. Also, the aggregate amount of all requested advances under the Revolving Loan from July 17, 2001 (the date of the loan agreement) to July 15, 2002 (the maturity date) may not exceed \$58,000,000. As of July 17, 2001 the amount advanced to Talega Associates and outstanding under the Revolving Loan was \$29,734,848.39. Pursuant to the loan agreement, when this amount is repaid, the full amount of the Available Commitment will be available to be advanced but, as discussed above, the aggregate amount advanced under the Revolving Loan after July 17, 2001 may not exceed \$58,000,000.

Table 14 below contains Talega Associates' pro forma annualized cash flow summary for the development of the Talega Project. The pro forma cash flow summary contained in Table 14 is for all phases of the Talega Project and assumes that the United States Army Corps of Engineers will issue a 404 Permit in the form of the draft which has been provided by the Corps. Accordingly, the estimated costs of the construction of the three bridges over the Segunda Deshecha drainage and the related road improvements which would be required if the 404 Permit is issued in the form of that draft are included in improvement costs contained in Table 14. See "404 Permit and Streambed Alteration Agreement" below. See also "SPECIAL RISK FACTORS - Financing Bridge Construction."

^{*} Pursuant to agreements with the residential builders, Talega Associates is entitled to a participation in each builder's net profit pursuant to a formula set forth in the agreements. For the period through December 31, 2000, Talega Associates received profit participation in the total amount of \$1,936,000.

Community Facilities District No. 90-2 (Talega) Developer's Pro Forma Annualized Cash Flow Summary

Calendar Year	Through 2000	2001	2002	2003	2004	2002	TOTALS
Revenue from Land Sales	\$172,893,095	\$49,755,750	\$73,950,314	\$67,881,191	\$67,283,887	\$68,741,798	\$500,506,035
Loan Draws (1)	136,075,822	37,813,202	52,678,545	43,975,374	25,042,447	5,779,427	301,364,817
Bond Proceeds (2)	3,991,043	18,066,137	13,544,721	8,750,205	3,944,446	1,384,449	49,681,001
TOTAL SOURCES	\$312,959,960	\$105,635,089	\$140,173,580	\$120,606,770	\$96,270,780	\$75,905,674	\$851,551,853
Bonds & Fees	\$7,710,059	\$1,588,769	\$4,490,815	\$1,740,958	\$572,720	\$101,052	\$16,204,373
Off-Site Improvements	54,633,521	38,080,586	40,162,177	27,201,611	29,488,114	8,940,664	198,506,673
Off-Tract Infrastructure	4,017,629	11,922,822	4,520,238	13,427,651	0	0	33,888,340
Common Area Improvements	9,631,791	7,993,455	4,154,695	4,323,183	2,394,030	1,590,588	30,087,742
Engineering	16,617,316	6,286,046	8,348,762	2,264,479	2,359,600	1,027,694	36,903,897
Construction Indirects/ Project Development	5,756,990	1,719,283	1,019,689	1,019,689	1,021,458	966,607	11,503,716
Sales & Marketing	5,328,507	(318,866)	(799,725)	(828,392)	(864,113)	(852,701)	1,664,710
Property Taxes (3)	17,718,866	2,124,663	1,349,615	1,349,615	1,353,312	1,349,615	25,245,686
General & Administrative	5,178,740	2,155,494	1,981,726	1,981,726	1,981,726	1,981,726	15,261,138
Loan Repayments	116,600,107	44,223,317	60,675,588	52,805,280	33,511,754	18,932,906	326,748,952
TOTAL USES	\$243,193,526	\$115,775,569	\$125,903,580	\$105,285,800	\$71,818,601	\$34,038,151	\$696,015,227
DISTRIBUTABLE CASH	\$69,766,434	(\$10,140,480)	\$14,270,000	\$15,320,970	\$24,452,179	\$41,867,523	\$155,536,626

Projected annualized totals of loan draws and repayments pursuant to the Revolving Loan. Assumes that the Revolving Loan will be extended beyond July 15, 2002.

(2) Includes (i) bond proceeds of CFID No. 99-1 of the Water District deposited in the escrow fund, (ii) proceeds of the sale of parity bonds of CFID No. 99-1 and (iii) school site purchase price which is expected to be paid from proceeds of the sale of parity bonds of CFD No. 99-1 and the Bonds.

(3) Includes special taxes levied to pay debt service on the bonds and parity bonds of CFD No. 99-1 and the Bonds.

Source: Talega Associates, L.L.C.

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Talega Associates plans to make up the projected shortfall in funding sources for calendar year 2001 through capital contributions by its members, Catellus Residential Group, Inc., Standard Pacific of Orange County, Inc., and JKS Holdings LLC. See "Property Owners and Developers" above.

The pro forma cash flow summary contained in Table 14 assumes that proceeds of the bonds of CFD No. 99-1 deposited in the escrow fund will be released to fund CFD No. 99-1 project costs beginning in 2001 and that all of the bond proceeds deposited in the escrow fund will be disbursed by 2002. This pro forma cash flow summary also assumes that an additional series of parity bonds of CFD No. 99-1 will be issued in 2002 to fund project costs in the amount of \$20,000,000.

For the period January 1, 2001 through August 31, 2001, Talega Associates had total project expenditures in the amount of \$26,561,526 and had made loan repayments on the Revolving Loan in the amount of \$5,892,237. Loan draws under the Revolving Loan in this period were in the amount of \$33,562,384. Talega Associates expects that revenues from land sales for 2001 will be approximately in the amount projected in Table 14 (i.e., \$49,755,750).

Talega Associates will conduct an annual review of its business plan for the development of the Talega Project in November 2001. This review may result in changes to the revenue and expense projections for future years.

In addition to the Term Loan and the Revolving Loan, Talega Associates has also given a promissory note to the Lender in the amount of \$12.157,683.30 which secures repayment by Talega Associates of amounts that may be drawn under a letter of credit issued in this same amount by U.S. National Bank, on the application of Talega Associates and the Lender, for the benefit of the City. This promissory note is secured by the deed of trust on the Talega Property that also secures the Term Loan and the Revolving Loan. The letter of credit secures Talega Associates' funding obligations under an agreement with the City regarding the construction of a freeway interchange between Avenida Vista Hermosa and Interstate 5.

Growth Control Initiative

In 1986 the voters in the City approved a growth control initiative, Measure B, which limits the number of building permits that can be issued by the City for residential dwelling units to 500 per year. The City has acknowledged in the Development Agreement that 338 previously authorized development allocations which Talega Associates acquired from the original developer of the Talega Project may be used without affecting the allocation of additional building permits pursuant to Measure B. The Development Agreement also permits the annexation of individual residential lots in the Sphere-of-Influence Area to the City after a building permit has been issued by the County* but before a certificate of occupancy is issued by the City. These residential lots will be exempt from the limitations of Measure B. See "Annexation of Sphere-of-Influence Area" above. However, Measure B will control the issuance of building permits for the all of the residential units, except the 338 mentioned above, which are expected to be constructed in the portion of the project which is located in the City (i.e., approximately 2,127 units). Other competing major development projects as well as individual property owners in the City will also be seeking the issuance of building permits for residential construction. On June 7, 1999, the City Council authorized an additional 181 development allocations for portions of the Village Center and Tentative Tract 15765.

On April 15, 2000, the City Council authorized the issuance of 116 development allocations for Tentative Tracts 14224 and 14226 in the Talega Project. On the same date, 64 additional development allocations were authorized by the City Council for the Village Center. The City Council authorized 123 development allocations for the Village Center on April 4, 2001. Development allocations are made once each year and have historically been made before July 1. As of August 31, 2001, the City and the Authority have issued 1,086 residential building permits for the Talega Project.

^{*} These building permits will be issued by the Talega Joint Planning Authority.

Foothill Transportation Corridor Alignment

On November 19, 1986, the Board of Supervisors of the County approved the selection of four Alternative Alignments for the Cristianitos Segment of the Foothill Transportation Corridor ("FTC") identified as BX, C, D, and E. The FTC is a proposed major arterial highway which would link southern Orange County with business and commercial centers in the central and northern portions of the County. It would provide an alternative north/south route to the San Diego (I-5) Freeway and would serve some of the through-travel demand which is expected to be generated by the anticipated inland development in the southern half of the County. A modification of Alignment C, originally designated "CP" and now designated the "Far East Alignment," which runs along the easterly boundary of the Talega Project, has been incorporated into the overall design of the project. The County Master Plan for Arterial Highways shows a conceptual alignment for the FTC along the eastern edge of the project which approximates Alignment C. The same conceptual alignment is also included in the City's General Plan.

Since the Foothill-South Toll Road intersects with I-5, it requires federal permits and may be eligible for federal funding. Accordingly, a federal Environmental Impact Statement ("EIS") that will address the environmental consequences of constructing the FTC along the Far East Alignment and other possible alignments and project alternatives is being prepared. In November 2000, a group of federal and state transportation and resource agencies announced that the alternatives that are to be considered in the EIS will be:

The Far East Alignment: The Far East Alignment would extend the existing 241 Toll Road south from where it now ends at Oso Parkway near Rancho Santa Margarita to I-5 at Cristianitos Road south of the City. It traverses portions of undeveloped, privately owned land east of the City of San Juan Capistrano and the City, including the Talega Project, and portions of the Camp Pendleton Marine Corps Base. The alignment crosses Ortega Highway approximately 2.5 miles east of Antonio Parkway/Avenida La Pata. Interchanges are planned at Oso Parkway, Crown Valley Parkway (future), Ortega Highway, Avenida Pico, Cristianitos Road, and at a direct connection to I-5. Variations include stopping the alignment at Avenida La Pata, Ortega Highway and Avenida Pico or swinging the alignment southwest to meet with the Central Alignment near Avenida Pico.

In 1991, after completing public review through the preparation of an Environmental Impact Report, the Foothill/Eastern Transportation Corridor Agency Board of Directors approved the CP (Far East) Alignment as the locally preferred alternative because it best relieved traffic on I-5 with the least environmental impacts. The Board of Directors is comprised of elected city and county officials. This locally preferred alignment is recognized by the City and the County and is an integral part of a multi-modal transportation solution that is included in the Orange County Transportation Authority and Southern California Association of Governments planning documents; the agencies that are responsible for regional transportation planning.

Central Corridor Alignment (previously BX): The Central Corridor Alignment would extend the 241 Toll Road south from where it now ends at Oso Parkway near Rancho Santa Margarita to 1-5 at Avenida Pico in the City. It crosses Ortega Highway approximately one-quater mile east of Antonio Parkway/Avenida La Pata and extends southerly parallel and east of Avenida La Pata and the city limit of the City of San Juan Capistrano. The alignment continues along the westerly edge of the Talega Project and swings southwesterly to continue parallel to and northwest of Avenida Pico to terminate at I-5. Variations include stopping the alignment at Avenida La Pata or Ortega Highway.

Alignment 7: Alignment 7 would extend the 241 Toll Road south from where it now ends at Oso Parkway near Rancho Santa Margarita to I-5 at Avenida Pico in the City. The alignment crosses Ortega Highway approximately 1.1 miles east of Antonio Parkway/Avenida La Pata. The alignment continues southerly through the Prima Deshecha Sanitary Landfill near its

easterly property line. It then enters the City, continues through the Talega Project and swings southwesterly to continue parallel to and northwest of Avenida Pico to terminate with a direct connection to I-5. Variations include swinging the alignment to the Central Alignment before it reaches the northerly property line of the Prima Deshecha Sanitary Landfill or swinging the alignment to the Far East Alignment just south of the northerly landfill property line or stopping the alignment at Avenida La Pata or Ortega Highway.

Arterial Improvement: The Arterial Improvement alternative involves expansion of Antonio Parkway, Avenida La Pata, Ortega Highway and Camino Las Ramblas beyond the master plan build-out to handle future regional traffic demand.

Interstate 5 Widening: The 1-5 Widening Alternative would add additional lanes to I-5 between the 1-5/I-405 interchange and Cristianitos Road to accommodate future traffic projections. Adding these lanes would require major reconstruction of interchanges along the route.

Selection of either the Central Corridor Alignment (formally the BX alignment) or Alignment 7, both of which traverse portions of the project site, would require significant revision of the development plan. Talega Associates advises that the selection of the Central Corridor Alignment would result in the displacement of approximately 200 residential units. Talega Associates advises that the selection of Alignment 7 would result in the displacement of approximately 425 residential units in Villages I, II, V and VI. Talega Associates believes that the Specific Plan would allow the transfer of these units to other areas of the Talega Project. If either the Central Corridor Alignment or Alignment 7 were selected, and portions of the project site were acquired for right-of-way through eminent domain proceedings, the obligation to pay the Special Taxes would be treated as if it were an assessment and paid from the eminent domain award. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes." Selection of either one of these alignments would also require the acquisition of newly completed and occupied homes.

The Foothill/Eastern Transportation Corridor Agency Board of Directors selected the Far East Alignment (CP) in 1991, after completing public review through the preparation of an Environmental Impact Report, as the locally preferred alternative. The Cities of San Clemente and San Juan Capistrano have also selected the Far East Alignment (CP) as the preferred alignment. It is expected that the final alignment selection will occur in 2003 and construction of the final reach of the FTC will begin in 2003 or 2004. Completion is projected for 2007.

404 Permit and Streambed Alteration Agreement

The previous owner-developer of the Talega Project obtained a Nationwide Permit (89-173-PB) from the United States Army Corps of Engineers (the "Corps") pursuant to Section 404 of the Federal Clean Water Act (33 U.S.C. §1344) and Part 323 of Title 33 of the Code of Federal Regulations (commonly referred to as a 404 Permit) which, among other things, permitted the alteration of the streambed of the Segunda Deshecha drainage to accommodate the project in 1989. This permit was extended to January 1997. Between 1992 and 1994, 8.8 acres of riparian habitat was installed as required by the conditions of the 404 Permit. However, due to economic conditions, the grading and improvements authorized by the 404 Permit were only partially completed. In 1997, the criteria by which the Corps issued the permit were changed, rendering the permit invalid. In March 1998, a new Nationwide Permit was obtained to allow impacts to a portion of the on-site drainage and to allow construction of portions of the golf course in Village II. Due to the number of acres of the streambed to be altered in the remainder of the project, the Corps is requiring a new individual project permit. Talega Associates made application to the Corps for this new 404 Permit in July 1998.

The Corps distributed the 404 Permit application for public review and comment in February and November 2000. Letters were received in support of and in opposition to the issuance of the 404 Permit. The opposition letters were primarily concerned about potential impacts to the alkali wetlands on the project site. In response to these concerns, the Corps and Talega Associates focused on alternative project designs that would avoid additional alkali wetland areas in the vicinity of the Avenida Vista Hermosa extension, in the area

of the Village Center and Village III and in areas where the golf course is adjacent to the upper Segunda Deshecha drainage. Talega Associates has revised the design of the golf course, Village III and portions of the Village Center to eliminate filling of the Segunda Deshecha drainage. This redesign necessitates the relocation of storm runoff detention facilities, elimination of approximately 46 homes, elimination of 10 acres of business park in the Village Center and the construction of three bridges. As a result of the reduced impacts to the Sequnda Deshecha drainage, Talega Associates will be able to provide on-site mitigation measures subject to Corps approval of a habitat mitigation and monitoring plan. The Corps has provided a review draft of the 404 Permit that is acceptable to Talega Associates. Talega Associates expects that the 404 Permit will be issued in the fourth quarter of 2001.

The 404 Permit is expected to be issued contingent upon Talega Associates obtaining a certification pursuant to Section 401 of the Federal Clean Water Act (33 U.S.C. §1341) from the California Regional Water Quality Control Board, San Diego Region, that discharges to navigable waters which may result from grading activity on the project site will comply with applicable requirements of that act. Talega Associates has made application to the Regional Board for such a certification and expects that it will be issued in the fourth quarter of 2001. In issuing this certification, the Regional Board may impose conditions to assure compliance with the requirements of the Clean Water Act.

In 1989 a streambed alteration agreement was entered into by the previous owner-developer of the Talega Project and the California Department of Fish and Game pursuant to Section 1603 of the California Fish and Game Code to also allow the alteration of the Segunda Deshecha drainage. This agreement has been routinely extended and another extension request has been submitted. It is anticipated that when the 404 Permit is issued, the Section 1603 Agreement will also be extended with revisions that are consistent with the terms of the 404 Permit.

Endangered Species

Impacts from the development of the Talega Project to biological resources, including sensitive species and habitat types (including coastal sage scrub) were avoided, minimized and mitigated by project design features and funding for a conservation easement encompassing the approximately 1,172 acre Talega Reserve which is managed by the Rancho Mission Viejo Land Conservancy. However, development activity on the project site will impact 136.14 acres of coastal sage scrub which is potential habitat for the coastal California gnatcatcher. United States Fish and Wildlife Service and California Department of Fish and Game authorization is required for this habitat loss. Talega Associates has obtained authorization pursuant to the County of Orange Natural Community Conservation Planning ("NCCP") program and the 4(d) Special Rule process under the Federal Endangered Species Act for the loss of 104 12 acres of coastal sage scrub through the issuance of three "4(d)" habitat loss permits. The areas covered by these permits include Village I, Village II, the Village Center and the Business Park south of Avenida Pico. Mitigation measures for the loss of this habitat include the preservation and restoration of sage scrub in onsite open space areas. Talega Associates has also contributed \$250,000 to the County and homeowners in the Talega Project will pay an annual homeowner's assessment of \$25.00 per residential unit which will be contributed to the County or an appropriate non-profit conservation agency for maintenance of an NCCP reserve system. If the maximum number of residential units (4,965) were built, the total of the annual homeowners' assessments would amount to \$124,125 or if 3,471 residential units are built, as now projected by Talega Associates, the total of the annual homeowners' assessments would amount to \$93,525. Talega Associates is preparing an application for a final "4(d)" habitat loss permit to obtain authorization for the loss of approximately 32.02 acres of coastal sage scrub in portions of Village III and Village V.

In connection with the issuance of the 404 Permit, the Corps has obtained a biological opinion from the United States Fish and Wildlife Service regarding the impact of the Talega Project on a small population of Thread-leaved Brodiaea, a federally protected plant, and to areas designated as critical habitat for the coastal California gnatcatcher. The Fish and Wildlife Service has determined that relocation of the Brodiaea plants is acceptable and that the project will not adversely modify critical habitat for the gnatcatcher.

Market Absorption Study

Empire Economics, LLC (the "Market Absorption Consultant") has prepared a Market Absorption Study which estimates the absorption schedules for the 3,412 residential units (exclusive of the 283 age-restricted units in Area 2C of Village II and 46 age-restricted units in Areas 6C and 6E of Village VI) which are expected to be constructed in the Talega Project and for the property in the District which is proposed for development for commercial-retail and business park uses. As of July 1, 2001, 682 of the residential units had been sold to homeowners. The Market Absorption Consultant's projected absorption (*i.e.*, construction and occupancy) schedules for the remaining 2,730 residential units which are expected to be constructed in the Talega Project are as follows: 156 homes in the final six months of 2001; 446 homes in 2002; 636 homes in 2003; 572 homes in 2004; 429 homes in 2005; 319 homes in 2006; 162 in 2007, as various product lines approach build-out, and 10 homes in 2008, as the final units are sold.

The Market Absorption Consultant advises that with regard to the absorption of the 8.9 acres of commercial-retail property, the demand for these retail centers will depend on the absorption of homes in the District, along with the purchasing power of these households. Based on a consideration of these factors, the Market Absorption Consultant estimates that the absorption of this commercial-retail property will amount to 4.2 acres in 2003 and 4.7 acres in 2005.

The Market Absorption Consultant advises that the absorption of the 66.9 acres of business-park properties is based upon the expansion of Orange County's employment centers into the far southern portion of the County. The Market Absorption Consultant expects that five acres of the business-park properties will be absorbed in 2001, 10 acres in 2002 and 15 acres in 2003-2005 with the remaining 6.9 acres being absorbed in 2006.

The Market Absorption Consultant's absorption estimates are based on the assumption that all City building permit allocations, the 404 Permit and environmental approvals will be received in a timely manner.

At the request of the School District, the Market Absorption Consultant has issued a letter dated October 10, 2001, expressing the opinion that upon considering the terrorist events that occurred on September 11, 2001 and based on economic policies that can be implemented and the limited information on recent/current market conditions described therein, the absorption schedules set forth in the Market Absorption Study are still reasonable. A copy of this letter is included in Appendix B.

The Appraiser has relied on the Market Absorption Consultant's projections for purposes of the Appraisal. See "APPENDIX B - MARKET ABSORPTION STUDY" for a complete understanding of the Market Absorption Consultant's assumptions. No assurance can be given that homes and other properties in the District will be absorbed as projected by the Market Absorption Consultant.

SPECIAL RISK FACTORS

The following is a discussion of certain special 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 the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District 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 the District. See "The Appraisal" and "Limited Secondary Market" below.

Economic Uncertainty and Events of September 11

The Bonds are being issued in a period of economic uncertainty. The national and State economies may be in recession. Recently, the airlines and other major employers have announced significant workforce reductions. Moreover, although it is not possible to predict the economic effect of the unprecedented

September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon and the response of the United States government, it could be significant. No assurance can be given that current economic uncertainty or future occurrences will not have an effect on the District, the development or property owners in the District. Among other possible effects, economic uncertainty could result in an increase in lending requirements which potential home buyers must satisfy to qualify for loans to purchase homes in the District. Also, uncertainty regarding job security and personal income may cause people to defer the purchase of homes and reduce the demand for new homes. Either of these possibilities could result in a slowdown in home sales and a decrease in land values in the District.

Existence of Undeveloped Property

As of March 1, 2001, approximately 1,388 acres of taxable land in the District were considered to be undeveloped. No Special Taxes were levied on undeveloped property for fiscal year 2001-02. However, it is expected that Special Taxes will be levied on undeveloped property pursuant to the Rate and Method of Apportionment of Special Taxes in fiscal years 2002-03 and 2003-04 to pay a portion of the annual debt service on the Bonds. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes." No assurance can be given that the developers or other taxpayers within the District will continue to pay the Special Taxes levied on their property or that they will be able to pay such Special Taxes on a timely basis. See "Bankruptcy" and "Limitations on Remedies" below, for a discussion of certain limitations on the ability of the District to pursue judicial foreclosure proceedings with respect to parcels with delinquent Special Taxes.

Insufficiency of Special Taxes

Under the Rate and Method of Apportionment of Special Taxes for the District, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on its development status as determined under the Rate and Method of Apportionment of Special Taxes. See Appendix C and "THE DISTRICT - Rate and Method of Apportionment of Special Taxes." To the extent undeveloped property does not become developed property, the collection of Special Taxes will be dependent on the willingness and ability of the owners of undeveloped property to pay such Special Taxes when due. See "Failure to Develop" and "The Appraisal" below for a discussion of the risks associated with undeveloped property.

The Rate and Method of Apportionment of Special Taxes specifies the process for determining the amount of Special Tax to be levied in order to equal the amount needed to pay debt service on the Bonds. The Special Taxes will not be levied on any public properties, religious properties or homeowner association or property owner association properties.

The Act provides that if any property within the District not otherwise exempt from the Special Taxes is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operative effect of these provisions of the Act have not been tested in the courts. If for any reason property subject to the Special Taxes becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized Special Taxes, the Special Taxes will be reallocated to the remaining taxable properties within the District, depending on where such property is located. This would result in the owners of such properties paying a greater amount of the Special Taxes and could have an adverse effect on the timely payment of the Special Taxes. Moreover, if a substantial portion of land within the District became exempt from the Special Taxes because of public ownership, or otherwise, the maximum Special Taxes which could be levied upon the remaining land might not be sufficient to make the payments required to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

No assurance can be given that the Special Taxes levied on developed residential and commercial parcels within the District, determined in accordance with the Rate and Method of Apportionment of Special Taxes, together with the Special Taxes which will be levied on undeveloped property within the District will be sufficient to pay the annual debt service due on the Bonds. Further, if the owners of undeveloped property within the District are unable to develop any portion of such undeveloped property, the maximum amount of Special Taxes that can be collected will be adversely affected, and the ability and willingness of the owners of such property to pay the Special Taxes when due could also be affected. See Appendix C and "THE DISTRICT - Rate and Method of Apportionment of Special Taxes."

Prepayment of Special Taxes

The Rate and Method of Apportionment of Special Taxes contains procedures for calculating the partial or full prepayment and satisfaction of the Special Tax obligations of parcels of property in the District. Amounts received by the District from the partial or full prepayment and satisfaction of Special Tax obligations will be applied to the mandatory redemption of the Bonds. See "THE BONDS - Mandatory Redemption From Special Tax Prepayments." Full prepayments of the Special Tax obligations of parcels of property in the District could reduce the diversity of ownership among taxpayers in the District and could result in some of the more valuable property in the District being relieved of the obligation to pay the Special Tax.

Development Agreement

On September 2, 1998, the City Council of the City adopted Ordinance No. 1209 approving the Development Agreement between the City and Talega Associates pursuant to Section 65865 of the Government Code of the State, with respect to the development of the land within the District (the "Development Agreement") pursuant to the Specific Plan Amendment (SPA 98-03), as approved by the City Council on November 18, 1998 (the "Development Plan"). Generally, the Development Agreement provides to the Development that they may proceed with the development of the Talega Project pursuant to the Development Plan in accordance with existing land use ordinances and certain future regulations specifically referenced in the Development Agreement at a rate of development consistent with the terms and provisions stated in the Development Agreement. There are no reported California court decisions which have considered the enforceability of development agreements such as the Development Agreement. Consequently, no assurance can be given that a court would uphold the Development Agreement if it were challenged. Moreover, the Development Agreement is not binding on other governmental agencies, and they could, therefore, impose additional conditions on the development of the Talega Project or deny necessary permits. See "Failure to Develop" below.

Furthermore, questions exist as to the enforceability of development agreements and as to the extent to which they can protect the right to proceed with development as currently planned if more restrictive local land use regulations are adopted in the future. A development agreement does not protect against changes in State or federal law. Further, under certain circumstances (i.e., a natural disaster), the City may be able to take action, in the exercise of its police power, which is contrary to the Development Agreement, to protect the public health, safety and welfare.

Reliance on Escrowed Proceeds and Parity Bonds

Talega Associates' pro forma cash flow projections for the development of the Talega Project anticipate the disbursement of proceeds of the CFD No. 99-1 bonds from the escrow fund established by the indenture for the CFD No. 99-1 bonds to fund costs of the Talega Project beginning in 2002 and the sale of parity bonds of CFD No. 99-1 to fund such costs in 2002. See "THE DEVELOPMENT PROJECT - Plan for Financing Development." Whether such proceeds, or any portion thereof, will be disbursed from the escrow fund or such parity bonds will be issued depends primarily on whether the market value of the property in CFD No. 99-1 increases sufficiently so that the conditions specified in the indenture for the disbursement of funds from the escrow fund or the issuance of parity bonds of CFD No. 99-1 will be satisfied. See "SECURITY FOR THE BONDS - Other Financing Districts" for the conditions that must be satisfied for the disbursement of funds from the escrow fund. No assurance can be given that such conditions will be satisfied, that funds will be

disbursed from the escrow fund or that such parity bonds will be issued in the amounts or at the times anticipated by Talega Associates. If such funds are not disbursed from the escrow fund or if the proceeds of such parity bonds are not available as anticipated by Talega Associates, it will have to rely on other sources to fund the development and construction of the Talega Project. No assurance can be given that such other sources will be available or sufficient to fund the portions of the Talega Project which are expected to be funded with escrowed CFD No. 99-1 bond proceeds or proceeds of the sale of parity bonds of CFD No. 99-1.

Growth Control Initiative

As discussed under "THE DEVELOPMENT PROJECT - Growth Control Initiative," the ability of Talega Associates to obtain building permits for the construction of residential units in the portion of the Talega Project which is located in the City (approximately 2,127 units) is subject to the requirements of a growth control initiative which limit the issuance of residential building permits in the City to 500 per year. Talega Associates believes it will be able to obtain building permits as needed for it to realize its projections for the sale of residential property to merchant builders. However, other major development projects and other property owners will also be seeking building permits for residential construction, and no assurance can be given that such building permits will be available in sufficient numbers for such projections to be realized.

Issuance of Building Permits Contingent on Annexation

The issuance of building permits by the Talega Joint Planning Authority for development in the Sphere-of-Influence Area is conditioned on a petition for the annexation of property to the City being filed with and certified as being sufficient by LAFCO; and the issuance by the Authority of certificates of occupancy for completed homes and other structures in the Sphere-of-Influence Area is conditioned on the annexation of property to the City being completed. The ability of Talega Associates to sell parcels of property in the Sphere-of-Influence Area to merchant builders is dependent on the builders being willing to purchase property which is subject to such conditions on the issuance of building permits and certificates of occupancy. This could place Talega Associates at a competitive disadvantage with other projects and adversely affect its ability to sell property in the Sphere-of-Influence Area and the absorption of that property. See "THE DEVELOPMENT PROJECT - Annexation of Sphere-of-Influence Area" and "- Talega Joint Planning Authority."

Financing Bridge Construction

The United States Army Corps of Engineers has provided to Talega Associates a draft 404 Permit with respect to the development of the later phases of the Talega Project which would necessitate the construction of three bridges across the Segunda Desheca drainage. Talega Associates expects that the 404 Permit will be issued in substantially this form. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement." The portions of the project which are affected by this 404 permit include the majority of Villages III, IV, V and VI. The Appraiser has determined that the net cost of the construction of these bridges and some related road improvements would be \$13,974,079. (See "Talega Bridge Costs Analysis" in the addenda to the Appraisal Report in Appendix A.) The cost of the construction of these bridges and the related road improvements was not anticipated by Talega Associates at the time it purchased the project property or when it prepared its original plan for the development of the property.

Talega Associates has initiated discussions with the School District concerning the possibility that the cost of the construction of these bridges and road improvements may be financed with proceeds of bonds of the District that would be issued for, and secured by special taxes levied on, portions of the undeveloped property in the District which would be included in an improvement area that would be designated by the Board of Trustees. This proposal has not yet been presented to the Board of Trustees. Further, since the bridges and road improvements would be facilities of the City of San Clemente, in order for the District to issue bonds for the proposed improvement area to finance the cost of the construction of the bridges and road improvements, the City would have to be willing to enter into a joint community facilities agreement with the District. See

"SECURITY FOR THE BONDS - Other Financing Districts - Improvement Area. See also "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Parity Bonds - Conditions for the Issuance of Improvement Area Bonds" for conditions which must be satisfied before bonds of the District could be issued for an improvement area.

Talega Associates has indicated that if the School District elects not to proceed with this proposal, it plans to petition the City to establish a community facilities district or an assessment district to finance the bridges and related road improvements or to petition the Water District to make changes to its CFD No. 99-1 to finance the bridges and road improvements.

The ability of Talega Associates to proceed with the development of the portions of the project which are affected by the 404 Permit depends, in part, on its ability to arrange financing for the cost of the construction of the bridges and related road improvements. No assurance can be given that the School District, the City or the Water District will agree to finance the cost of the construction of the bridges and road improvements through the issuance of bonds as proposed by Talega Associates. Talega Associates advises that if bond financing is unavailable, it will be able to finance the additional cost of the construction of the bridges and related road improvements through capital contributions by its members and a conventional development loan. However, no assurance can be given as to the availability of financing from these sources.

Failure to Obtain 404 Permit

In July 1998, Talega Associates made application to the United States Army Corps of Engineers for a 404 Permit that would have allowed grading and filling in the Segunda Deshecha drainage. In processing the application, the Corps identified concerns about the possible effects of grading and filling activity on alkali wetland areas on the project site. Talega Associates and representatives of the Corps have discussed modifications which could be made in the design and configuration of the affected portions of the Talega Project to avoid alkali wetland areas in the vicinity of the Avenida Vista Hermosa extension, in the area of the Village Center and Village III and in areas where the golf course is adjacent to the upper Segunda Deshecha drainage. The Corps has provided a review draft of the 404 Permit which is acceptable to Talega Associates. Issuance of the 404 Permit in the form of this draft will result in the loss of housing units and business park acreage and the construction of three bridges over the Segunda Deshecha drainage at considerable additional cost. Talega Associates expects that the 404 Permit will be issued in the fourth quarter of 2001. However, failure to obtain the 404 Permit or a prolonged delay in the issuance of the permit could have an effect on the ability or willingness of Talega Associates to retain ownership of the undeveloped portions of the property in the District and complete the project. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement."

Electric Supply Problems

San Diego Gas and Electric Company ("SDG&E"), a wholly owned subsidiary of Sempra Energy Company, supplies electric power to most of the southern portion of the County, including the City of San Clemente. In the latter part of 2000 and the first quarter of 2001, the three large public utilities which supply electric power to retail consumers in the State, including SDG&E, experienced a shortfall in the availability of electric power in the wholesale market. This shortfall was due in large part to the fact that in the past 10 years demand for electric power has increased significantly but no new electric generating plants have been constructed. To meet increasing demand, the State's utilities have become more reliant on out of state generating facilities, including, primarily, hydroelectric plants in the Northwest where drought conditions have caused reduced power production.

The shortfall in electric generating capacity resulted in rotating power outages or blackouts in both Northern and Southern California. These blackouts have lasted for an hour or more. No blackouts have been experienced in the past few months. However, the California Independent System Operator, which manages the electric transmission system for 75% of the State, had predicted that if the demand in the State for electricity was the same in the summer of 2001 as it was in the summer of 2002, the State could experience as many as 34 days of rotating blackouts. That these blackouts have not occurred is attributed to reduced

usage of electricity by consumers which has resulted, at least in part, from increases in rates for electric power which were granted by the California Public Utilities Commission in May 2001.

Although it is too early to assess the full effect of the electric power shortage on the State's economy, several economists have predicted that it will be affected. An analysis prepared by Cambridge Energy Research Associates ("CERA") in conjunction with UCLA's Anderson Business Forecast, June 2001,* concludes that in the near term California is unlikely to escape negative economic consequences from the electric power crisis. This analysis estimates that in 2001 California's gross state product will be reduced anywhere from 0.7 % to 1.5 % off an already weakening economy, depending on the policies the State uses to respond to the crisis, and that similar impacts can be expected in 2002. The analysis also estimates that the crisis is likely to increase unemployment by over a half of a percent in 2001 and by 1.1 percent in 2002. If these predictions are realized, the resulting uncertainty regarding job security and personal income may cause people to defer the purchase of homes and reduce the demand for new homes. This could affect Talega Associates' ability to develop and sell property in the remainder of the Talega Project.

Any decrease in the demand for new homes would affect the absorption rate for the development and sale of property in the Talega Project upon which the Appraisal is based. This would also affect Talega Associates' projected revenues from the development and sale of property.

Failure to Develop

Land development operations are subject to comprehensive federal, State of California and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. It is possible that such approvals will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy any such government requirement could adversely affect land development operations. In addition, there is a risk that future governmental restrictions, including, but not limited to, governmental policies restricting or controlling development within the District, will be enacted, and a risk that future land use initiatives approved by the voters in the County could add more restrictions and requirements on development within the District.

Moreover, there can be no assurance that the means and incentive to conduct land development operations within the District will not be adversely affected by a deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, the national economy, or war or terrorist activity. A slowdown of the development process and the market absorption rate for new homes could adversely affect land values and lessen the ability or willingness of the developers and owners of land within the District to pay the annual Special Taxes.

Another risk to the Bondowners involves the value of undeveloped property. Undeveloped property is less valuable per acre than developed property, especially if there are no plans to develop such property or if there are severe restrictions on the development of such property. Undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed would expose the Bondowners to additional risk. Because of the current acreage of undeveloped property within the District, the timely payment of the Special Taxes will initially depend primarily upon the ability and willingness of the developers to pay such taxes levied on the undeveloped property when due. A slowdown in or cessation of the development of land within the District could reduce the ability and willingness of the developers to make Special Tax payments, and could greatly reduce the value of such property in the event it has to be foreclosed upon to collect delinquent special taxes.

^{*} Short Circuit: Will the California Energy Crisis Derail the State's Economy, UCLA Anderson Forecast, June 2001.

The Appraisal

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that the aggregate minimum market value of the taxable property within the District was \$504,951,636 as of July 1, 2001. See "SECURITY FOR THE BONDS - Property Values" and Appendix A hereto.

At the request of the School District, the Appraiser has provided a limited summary appraisal report, dated October 15, 2001, for the purpose of determining whether the appraised values of the taxable property in the District have decreased since July 1, 2001 (the "Limited Report"). In the Limited Report, the Appraiser advises that, based on the investigation described therein, the Appraiser has formed the opinion that the terrorist events that occurred on September 11, 2001 may affect future real estate activity but, as of the date of such report, the estimated market values of the properties within the District are not less than those reported in the Appraisal.

The Appraisal has utilized mass appraisal techniques and is based on the valuation analysis necessary to estimate only minimum market values. The Appraisal does not take into consideration any possible negative effect resulting from future growth control initiatives, the listing of an endangered species or the determination that habitat for endangered or threatened species exists within the District, the existence of hazardous materials on any property within the District or other similar matters. The Appraisal also assumes the accuracy of information provided by third parties, including information regarding development costs and public and private improvement requirements, and does not warrant the accuracy of such information.

In appraising the value of the taxable property in the District, the Appraiser has assumed that a 404 Permit which must be issued by the United States Army Corps of Engineers pursuant to Section 404 of the Federal Clean Water Act (33 U.S.C. § 1344) and a certification which must be issued by the California Regional Water Quality Control Board, San Diego Region, pursuant to Section 401 of the Clean Water Act (33 U.S.C. § 1341) before portions of the undeveloped property in the District can be developed will be issued in a timely manner and that an existing Section 1603 Agreement with the California Department of Fish and Game which allows the alteration of the Segunda Deshecha drainage will also be extended in a timely manner. See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement."

Purchasers of the Bonds should not assume that the property within the District could be sold at its appraised value at a foreclosure sale to collect delinquent Special Taxes. See, "SECURITY FOR THE BONDS - Property Values" and the Summary Appraisal Report and the Limited Summary Appraisal Report included as Appendix A for a description of the assumptions made by the Appraiser and the definitions, assumptions and limiting conditions of the Appraisal.

Purchasers of the Bonds should also understand that property values are not evenly distributed throughout the District. Consequently, the ratios discussed under "SECURITY FOR THE BONDS - Property Values" are not consistent among different parcels within the District. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt" and "- Summary of Appraised Values and Certain Public Debt." These inconsistent property values are significant because the only remedy available to the District for collection of delinquent Special Taxes is to initiate judicial foreclosure proceedings with respect to properties with delinquent Special Taxes.

The Appraisal and Value-to-Lien Ratios

The appraised value of the taxable property within the District, as determined by the Appraiser, is \$504,951,636 as of July 1, 2001. See the Appraisal Reports included as Appendix A hereto for a complete description of the assumptions made by the Appraiser. Among other assumptions, the Appraisal assumes the accuracy of information regarding development costs provided by Talega Associates, the residential builders who are constructing homes in the District and others, and such information has not been independently verified by the Appraiser or anyone else. The ratio of the total of the appraised value of the property, as estimated by the Appraiser, to the total bonded indebtedness which will be secured by taxes are assessments levied on the

property is \$504,951,636 to \$85,609,199 (i.e., the total of the Bonds and the CFD No. 99-1 bonded indebtedness, the Water District's AMP Assessments and certain bonded indebtedness of the Metropolitan Water District of Southern California) or 5.898 to 1.

The District makes no representation as to whether the appraised value of the property within the District will remain at the appraised values discussed above or whether the property would sell for a price equal to that appraised value at foreclosure sale.

See "THE DEVELOPMENT PROJECT - 404 Permit and Streambed Alteration Agreement" and "Failure to Obtain 404 Permit" above.

Parity Taxes and Special Assessments

The Special Taxes and any penalties and interest thereon will constitute a lien upon the lots and parcels of land within the District upon which the Special Taxes will annually be levied until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on property within the District. The School District has no control, however, over the ability of other agencies and districts to incur indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. Any such special taxes or assessments will have a lien on such property on a parity with the lien of the Special Taxes and any penalties and interest thereon.

The School District plans to have the District issue additional bonds to finance a portion of the cost of a high school. Also, Talega Associates has initiated discussion with the School District concerning the possibility of an improvement area being designated over a portion of the property in the District to issue additional bonds of the District which would be secured by special taxes levied on taxable property in the improvement area to finance facilities of the City of San Clemente and additional school facilities. See "SECURITY FOR THE BONDS - Other Financing Districts - Improvement Area." Special taxes which would be levied to pay debt service on the additional bonds or the improvement area bonds would have a lien on property in the District on a parity with the lien of the Special Taxes.

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, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable on the same dates, and bear the same penalties and interest for non-payment, as general property tax installments. Special Tax installments cannot be paid separately from general property tax payments. Therefore, the unwillingness or inability of a property owner to pay general property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make general property tax payments and Special Tax installment payments in the future.

In fiscal year 2000-01 Special Taxes were levied on 424 parcels of Developed Property in the District. In fiscal year 2001-02 Special Taxes were levied on 865 parcels of Developed Property. No Special Taxes were levied on Undeveloped Property in the District in either fiscal year 2000-01 or fiscal year 2001-02. Delinquent Special Taxes for fiscal year 2000-01 were 2.87% of the total levy. It is expected that Special Taxes will be levied on Undeveloped Property in the District in fiscal years 2002-03 and 2003-04 to pay a portion of the annual debt service on the Bonds.

See "SECURITY FOR THE BONDS - Special Tax Fund - Reserve Account" and " - Covenant for Superior Court Foreclosure", for discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

Non-Cash Payments of Special Taxes

Pursuant to the Act, the Board of Trustees, as the legislative body of the District, may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Tax or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. This would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds.

The Board of Trustees has covenanted that it will not accept the tender of Bonds in lieu of cash for the payment of Special Taxes levied by the District.

Land Development Costs

Development of land within the District is contingent upon construction or acquisition of major public improvements which will provide services to the boundaries of individual subdivisions, as well as local in-tract improvements within each subdivision. The current property owners and developers, or subsequent property owners and developers, will need to secure financing to provide for the total cost of constructing all public improvements that will not be constructed with the proceeds of the sale of the Bonds. The construction of some of these improvements will require action on the part of other agencies over which the School District has no control. There can be no assurance that these improvements will ever be constructed or will be constructed in a timely manner to permit the completion of the development currently proposed for the District.

In addition to the major public improvements which will provide services to individual subdivisions, significant local in-tract improvements will also be required in order to prepare finished lots which are ready for the construction of homes. These local in-tract improvements include mass grading, lot grading, streets, water and sewer lines, storm drains, utilities and landscaping. The financing of these local in-tract improvements must be obtained by the developer of each subdivision and the builders of the homes and commercial projects within the subdivisions. The financing of these in-tract improvements would increase the public and private debt for which the land within the District is security. This increased debt could impair the ability and willingness of the property owners to pay the annual Special Taxes levied on their property. See "SECURITY FOR THE BONDS - Property Values."

Future Indebtedness

The owners of land within the District may eventually wish to construct improvements in addition to those being financed with the proceeds of the Bonds. The cost of those additional improvements may increase the public and private debt for which the land in the District is security over that contemplated at the time of the issuance of the Bonds, and such increased debt could impair the ability and willingness of the developers and builders and other property owners to pay the Special Taxes levied on the property in the District. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements will be secured by a lien on a parity with the lien of the Special Taxes. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt" and "- Other Financing Districts."

Disclosures to Future Purchasers of Land Within the District

The School District has recorded a notice of the lien of the Special Taxes for the District in the Office of the County Recorder of the County. While title insurance companies normally refer to such notices in title insurance reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser of land within the District or a lender will consider such Special Tax obligation in the purchase of such land or the lending of money with respect thereto. Failure to disclose the existence of the Special Taxes

or the full amount of the pro rata share of debt on the land in the District may affect the ability and willingness of future owners of land within the District to pay the Special Taxes when due.

Payment of Special Taxes

The levy of special taxes can result in a significantly greater property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special taxes. In some community facilities districts, the property owners have refused to pay the special taxes and have commenced litigation challenging the special taxes, the establishment of the community facilities district and the bonds issued by the district.

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, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. See "Tax Delinquencies" above.

An owner of a taxable parcel is not personally obligated to pay the Special Taxes which are levied against his or her parcel. Rather, the Special Taxes are an obligation which is secured only by a lien upon the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to fully secure the Special Taxes, the District has no recourse against the owner.

See "SECURITY FOR THE BONDS - Special Tax Fund - Reserve Account" and "- Covenant for Superior Court Foreclosure," for a discussion of provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

The ability of the District to increase the amount of Special Taxes which may be levied to and pay costs of foreclosure proceedings may be limited by voter initiative. See "Constitutional Amendment" and "Limitations on Remedies" below.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan, as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect Owners of the Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or any part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the District would eliminate such protection from delinquent Special Taxes. See "SECURITY FOR THE BONDS-The Teeter Plan."

Bankruptcy

The payment of property owners' taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to the Foreclosure Covenant, 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 "Limitations on Remedies" below and "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

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 bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full. The prosecution of foreclosure proceedings could also be delayed for other reasons, including crowded court calendars and procedural delaying tactics. See "Limitations on Remedies" below.

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, Inc.* (971 F.2d 391). 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 Chapter 11 relief under the Bankruptcy Code 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 filing of 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. When 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.

Payments by FDIC

The ability of the School District to collect interest and penalties allowed by State law and to foreclose on property with delinquent Special Taxes may be limited if the Federal Deposit Insurance Corporation (the "FDIC") has or obtains an interest in the property. The FDIC would obtain such an interest by acting as receiver for or taking over a financial institution which has made a loan which is secured by real property within the District.

The FDIC has issued a policy statement (the "Policy Statement") which provides that real property owned by the FDIC is subject to state and local property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the affairs of the institution for which the FDIC is acting, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay or recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC).

the FDIC will pay the taxes. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without its consent.

The Policy Statement provides that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and any special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The United States Court of Appeals for the Ninth Circuit has recently issued an opinion regarding claims filed by the FDIC in the County's Chapter 9 bankruptcy seeking refunds of real property tax penalties for properties which were the subject of FDIC receiverships (In re: County of Orange, Debtor. Federal Deposit Insurance Corporation, Appellant-Cross-Appellee v. County of Orange, Appellee-Cross-Appellant, 262 F.3d 1014). The court affirmed a decision of the Bankruptcy Appellate Panel that the FDIC could not avoid pre-receivership liens for these penalties but that the FDIC is not liable for penalties that are not secured by liens both before and after the receivership or for post-receivership special taxes levied pursuant to the Mello-Roos Act. The Policy Statement is consistent with this opinion.

The District is unable to predict what effect the FDIC's application of the Policy Statement would have if there were a delinquency in Special Taxes levied on a parcel in the District in which the FDIC had an interest. However, it should be assumed that there would not be a buyer at a foreclosure sale if the FDIC's lien could not be foreclosed. It should also be assumed that the District will be unable to foreclose on any parcel owned by the FDIC. In either event, there would be a draw on the Reserve Account and, if the delinquency continued, there could be a default in payment of principal of and interest on the Bonds.

The FDIC does not have any interest in any of the property in the District, and it does no appear that any property in the District has been in FDIC receivership.

Endangered Species

During the past several years, there has been an increase in activity at the State and federal levels related to the listing and possible listing of certain plant and animal species found in California as endangered species. An increase in the number of endangered species is expected to curtail development in a number of areas. Additionally, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal government to protect species located on or adjacent to the property within the District could have an adverse effect on the ability of the owners of undeveloped property to develop such property. Any such action could reduce the likelihood of timely payment of the Special Taxes which might be levied upon such undeveloped property and would likely reduce the value of such property and the potential revenues available at foreclosure sales for delinquent Special Tax installments. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure" and "THE DEVELOPMENT PROJECT - Endangered Species."

Geologic, Topographic and Climatic Conditions

The market value of the land and improvements within the District can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements of the land and the continued habitability and enjoyment of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements) and natural disaster conditions (such as floods, droughts and fire hazard).

Some of these factors have been taken into account, to a limited extent, in the design of infrastructure and public improvements, the design of which must be approved by the City and the County. Further, City and

County building codes require that some of these factors be taken into account in the design of private improvements on property. The City and the County have adopted the seismic standards which are mandated by the Uniform Building Code. Design criteria with respect to any of these factors are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent criteria which may be subsequently established. In general, design criteria reflect a balance at the time of establishment between the present costs of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Consequently, neither the absence of nor the establishment of design criteria with respect to any particular condition means that the City or the County has evaluated the condition and has established design criteria in the situations in which such criteria are needed to preserve value, or has established such criteria at levels that will preserve value. To the contrary, it is expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations may preclude such repair or replacement. Consequently, the occurrence of any of these conditions could result in a significant decrease in the market value of affected property or in such property becoming unmarketable.

The project site is transected by the Cristianitos Fault which is considered to be inactive. According to the Environmental Impact Report prepared by the City, it is known, however, that the site will be subjected to seismic shaking of moderate to high intensities at least once during the expected lifetime of the planned improvements (i.e., 50-100 years). The nature of that shaking will depend upon the location of the focus of the earthquake responsible, the magnitude of the event, and the materials through which the seismic waves will pass prior to reaching the site. An offshore extension of the Newport-Inglewood Fault, which is considered active, lies not more than ten miles to the west of the site.

Hazardous Substances

One of the most serious risks which may affect the value of property is the discovery of a hazardous substance. In general, the owners of and operators on a parcel of property may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super Fund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in effect. Under these laws, the owner (or operator) is obligated to remedy a hazardous substance condition on property whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance that caused the condition. The effect, should any of the parcels within the District be affected by a hazardous substance, would be to reduce the marketability and value of such parcels by an amount at least equal to the costs of remedying the condition, because the prospective purchaser of such a parcel would, upon becoming the owner of such parcel, become obligated to remedy the condition just as the seller of the parcel is so obligated.

The appraised values of the properties within the District do not take into account the possible liability of the owner (or operator) for the remedy of any hazardous substance affecting any such property. Neither the District nor the School District has independently verified whether, nor is aware that, the owners (or operators) of any of the parcels within the District have such a current liability with respect to any hazardous substance. However, it is possible that such liabilities do currently exist and that the District and the School District are unaware of such liabilities. No steps whatsoever have been taken in connection with the issuance of the Bonds to determine whether such liabilities exist.

Further, it is possible that such hazardous substance liabilities may arise in the future with respect to any of the parcels within the District resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could significantly affect the value of parcels.

Water Supply Legislation

Both houses of the California legislature have passed and the governor has signed legislation (Senate Bill No. 221) which will become effective on January 1, 2002. This legislation requires the legislative body or planning commission of a city or county to condition the approval of a tentative map with respect to a subdivision of property of more than 500 dwelling units on the availability of a sufficient water supply. The legislation also prohibits the approval of any development agreement for such a subdivision unless it provides that any tentative map for the subdivision will be conditioned on the availability of a sufficient water supply. Proof of the availability of a sufficient water supply may be requested by the subdivision applicant or the local agency, at the discretion of the local agency, and is based on the written verification from the applicable public water system. Sufficient water supply is defined as the total water supplies available during normal, single-dry, and multiple-dry years within a 20-year projection that will meet the projected demand associated with the proposed development project, in addition to existing and planned future uses, including, but not limited to, agricultural and industrial uses. It is not clear whether the legislation would apply to a project such as the Talega Project which already has significant development approvals and is already partially developed. The legislation provides that it shall not apply to any residential project proposed for a site that is within an urbanized area and has been previously developed for urban uses, or where the immediate contiguous properties surrounding the residential project are, or previously have been, developed for urban uses. It also provides that it is not intended to change existing law concerning a public water system's obligation to provide water service to its existing customers or to any potential future customers. The application of this legislation may be the subject of litigation and ultimate determination by the courts. Any such litigation and associated appeals may affect development activity throughout the State.

Constitutional Amendment

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative"), Proposition 218, was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C ("Article XIII C") and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Among other things, Section 3 of Article XIII C 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." Notwithstanding the foregoing language of Article XIII C, the District believes that the initiative power referred to in Article XIII C confers on the voters no greater power with respect to the reduction or repeal of the Special Taxes than the power reserved to the respective legislative body of the District described below.

The Act imposes on the legislative body of the District a statutory duty to levy that amount of Special Taxes which is required for the payment of the principal of and interest on the Bonds, including any necessary replenishment or expenditure of bond reserve funds and any amount required by federal law to be rebated to the United States with respect to the Bonds (the "Minimum Levy"). In addition, the Act prohibits such legislative body from adopting any resolution to reduce the rates of the Special Taxes or terminate the levy of the Special Taxes pledged to repay the Bonds unless such legislative body determines that the reduction or termination of the Special Taxes would not interfere with the timely retirement of that debt. Accordingly, the District believes that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes below the level required for the Minimum Levy. Notwithstanding such belief of the District, 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 "Limitations on Remedies" below.

Additionally, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the level required for the Minimum Levy. Nevertheless, the District has covenanted that, to the maximum extent that the law permits it to do so, it will take no action that would discontinue or cause the

discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) it receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property, as defined in the Rate and Method of Apportionment of Special Taxes (i.e., Taxable Property for which a building permit for new construction was issued prior to March 1 of the prior fiscal year) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of Annual Debt Service, after payment of the Administrative Expense Cap (as defined in the Indenture), in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds.

In connection with the foregoing covenants, the District has determined that a reduction in the maximum Special Tax rates below the levels provided for in the preceding paragraph would interfere with the timely retirement of the Bonds. The District has covenanted that in the event an initiative is adopted by the qualified electors of the District which purports to reduce the maximum Special Tax below these levels or to limit the power of the District to levy the Special Tax for those purposes, it will commence and pursue legal action in order to preserve its ability to comply with its covenants to levy Special Taxes. However, no assurance can be given as to the enforceability of these covenants.

The interpretation and application of Article XIII C will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such court proceedings or the timeliness of any remedy which may be afforded by the courts.

Future Initiatives

The Initiative was submitted to and approved by the voters of the State pursuant to the State's constitutional initiative process. The Supreme Court of the State has held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption of taxes from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by the voters of the State. The adoption of any such initiative might place limitations on the ability of the State, the School District, the District and other local districts to increase revenues or to increase appropriations or on the ability of the landowners within the District to complete the remaining proposed development. See "Failure to Develop" above.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAXMATTERS" interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture. See "Limitations on Remedies" below.

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 the Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required financial information does not give rise to monetary damages but only an action for specific performance. Occasionally, because of general market conditions, lack of current information, or the absence of a credit rating for bonds, or because of adverse history or economic prospects associated with a particular bond issue, secondary marketing practices in connection with such issue are suspended or terminated. Additionally, prices of bond

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.

Limitations on Remedies

Remedies available to Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 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 creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation, or modification of Bondowner rights.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information relating to the District by not later than six months after the end of its fiscal year (which currently ends on June 30) commencing with the fiscal year ending June 30, 2001 (the "Annual Reports"), and to provide notices of the occurrence of certain listed events, if deemed by the District to be material. The Annual Reports will be filed by the Trustee, as Dissemination Agent, on behalf of the District with each Nationally Recognized Municipal Securities Information Repository and with any State Repository which may be designated by the State of California. The notices of material events will be filed by the Fiscal Agent, as Dissemination Agent, on behalf of the District with the Municipal Securities Rulemaking Board (the "MSRB") and any such State Repository which may be designated. Talega Associates has also covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the development of its property within the District in Annual Reports filed by the Fiscal Agent, as Dissemination Agent, with such Repositories by May 1 of each year commencing May 1, 2002 and in Semiannual Reports filed by the Fiscal Agent, as Dissemination Agent, with such Repositories by November 1 of each year commencing November 1, 2002 and to provide notices of the occurrence of certain specified events, if determined by Talega Associates to be material, to the MSRB and any such State Repository. The specific nature of the information to be contained in the Annual Reports and Semiannual Reports or the notices of material events is set forth in Appendix F -Continuing Disclosure Agreement and Appendix G - Developer Disclosure Agreement. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Pursuant to the Continuing Disclosure Agreement, under circumstances and upon satisfaction of requirements specified therein, the District may amend the Continuing Disclosure Agreement or the Continuing Disclosure Agreement may be amended with the approval of the Bondowners in the manner provided therein. Talega Associates may also amend its continuing disclosure agreement under similar circumstances and upon satisfaction of similar requirements. The District's obligations under the Continuing Disclosure Agreement will terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. In general, the obligations of Talega Associates pursuant to its continuing disclosure agreement will terminate on the date when Talega Associates and its affiliates do not own property in the District that is subject to 20% or more of the Special Tax levy for the then current fiscal year. The provisions of the Continuing Disclosure Agreement and the continuing disclosure agreement of Talega Associates are intended to be for the benefit of the Bondowners and shall be enforceable by the Bondowners, provided that any enforcement action by any Bondowner shall be limited to a right to obtain specific enforcement of the District's obligations under the Continuing Disclosure Agreement or the obligations of Talega Associates under its continuing disclosure agreement, and any failure by the District or Talega Associates to comply with such obligations shall not be an event of default under the Indenture See "APPENDIX F - CONTINUING DISCLOSURE AGREEMENT" and "APPENDIX G - DEVELOPER DISCLOSURE AGREEMENT."

LEGAL OPINION

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds, in substantially the form set forth as Appendix E hereto, will be made available to purchasers at the time of original delivery of the Bonds. Bond Counsel has not undertaken on behalf of the Owners or the Beneficial Owners of the Bonds to review this Official Statement and assumes no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the Underwriter by Best Best & Krieger LLP, Riverside, California.

The statements of law and legal conclusions set forth in this Official Statement under the headings "THE BONDS" and "SECURITY FOR THE BONDS" have been reviewed by Bond Counsel. Bond Counsel's engagement is limited to a review of the legal procedures required for the authorization of the Bonds and to rendering an opinion as to the validity of the Bonds and the exemption of interest on the Bonds from federal and State income taxation

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest and original issue discount on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest and original issue discount on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest and original issue discount on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations.

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

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond.

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

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

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

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the initial delivery of the Bonds. The District and the School District are not aware of any litigation pending or threatened which questions the existence of the District or contests the authority of the School District to levy and collect and Special Taxes in the District or which contests the authority to issue the Bonds.

RATINGS

The Bonds are not rated.

UNDERWRITING

The Bonds are being purchased through negotiation by UBS PaineWebber Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$22,472,277.35 (after original issue discount in the amount of \$231,972.65 and an Underwriter's discount in the amount of \$345,750). The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being 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 public offering prices set forth on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

FINANCIAL INTERESTS

In connection with issuance of the Bonds, fees payable to certain professionals, including the Underwriter, Best Best & Krieger LLP, as counsel to the Underwriter, Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, and U.S. Bank Trust National Association, as Fiscal Agent, are contingent upon the issuance of the Bonds.

PENDING LEGISLATION

The District is not aware of any significant pending legislation which would have a material adverse effect on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

MISCELLANEOUS

All of the preceding summaries of the Indenture, the Bonds, other applicable agreements and legislation, and other documents are made subject to the provisions of such legislation and documents 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. This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the District has been duly authorized by the Board of Trustees.

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

/s/ Crystal Kochendorfer

President of the Board of Trustees

APPENDIX A

APPRAISAL REPORTS

APPRAISAL OF

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

PREPARED BY

BRUCE W. HULL & ASSOCIATES, INC.

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LIMITED APPRAISAL REPORT - SUMMARY APPRAISAL

"TALEGA" PROJECT

Community Facilities District No. 90-2 (Talega)
Capistrano Unified School District
City of San Clemente and Orange County
State of California
(Appraiser's File No. 2001-21.Limited)

Prepared For

Capistrano Unified School District 32972 Calle Perfecto San Juan Capistrano, California 92675

Prepared By

Bruce W. Hull & Associates, Inc. 1056 E. Meta Street, Suite 202 Ventura, California 93001 [THIS PAGE INTENTIONALLY LEFT BLANK]

BRUCE W. HULL & ASSOCIATES, INC.

REAL ESTATE APPRAISERS & CONSULTANTS

October 15, 2001

Mr. David Doomey Assistant Superintendent, Facilities Planning Capistrano Unified School District 32972 Calle Perfecto San Juan Capistrano, California 92675

Reference: Community Facilities District No. 90-2 (Talega)

Capistrano Unified School District City of San Clemente, California

Dear Mr. Doomey:

At your request and authorization I have prepared a limited summary appraisal report of the property within the above referenced Community Facilities District ("CFD"). The CFD encompasses a master planned residential development for which Talega Associates LLC is the master developer.

This report is a Limited Summary Appraisal Report, which is defined as:

"The act or process of estimating value or an estimate of value performed under and resulting from invoking the Departure Provision."

The Departure Provision of Uniform Standards of Professional Appraisal Practices states:

"An appraiser may enter into an agreement to perform an assignment that calls for something less than, or different from, the work that would otherwise be required by the specific guidelines."

Advisory Opinion 15 ("AO-15") of the Uniform Standards of Professional Appraisal Practice indicates the conditions under which an appraisal may depart from the specific guidelines:

1. The appraiser has determined that the appraisal or consulting process to be performed is not so limited that the resulting assignment would tend to mislead or confuse the client or the intended users of the report;

Mr. David Doomey Capistrano Unified School District October 15, 2001 Page Two

In the case of the subject, this limited summary appraisal report is intended to be used in conjunction with the summary appraisal report dated August 15, 2001 on the subject property with the date of value of July 1, 2001. In lieu of updating the entire summary report the purpose was to provide a limited summary appraisal report with a not less than value. The scope of work and the departure provisions are listed in this limited summary appraisal report.

2. The appraiser has advised the client that the assignment calls for something less than, or different from, the work required by the specific guidelines and that the report will clearly identify and explain the departures; and

In the case of the subject the appraiser has advised the client via a telephone conference call that a limited summary appraisal report will be prepared. The client has agreed that this is reasonable and prudent.

3. The client has agreed that the performance of a limited summary appraisal or consulting service would be appropriate."

The client has agreed that this is an appropriate action.

CLIENT

Capistrano Unified School District

PURPOSE OF THE APPRAISAL

The purpose of this limited summary appraisal report is to determine that the estimates of value for the subject CFD have not decreased since the August 15, 2001 summary appraisal report. The date of value for the August 15, 2001 report is July 1, 2001. This limited summary appraisal report should be used in conjunction with the August 15, 2001 summary appraisal report and the September 11, 2001 limited summary appraisal report.

INTENDED USE OF THE REPORT

It is the appraiser's understanding that this limited summary appraisal report, in conjunction with the July 1, 2001 summary appraisal report and the September 10, 2001 limited summary appraisal report will be utilized by the client, Capistrano Unified School District, in determining the feasibility of issuing bonds for the CFD.

Mr. David Doomey Capistrano Valley Unified School District October 15, 2001 Page Three

DEFINITIONS

Market Value

The term "market value" as used in this limited summary appraisal report is defined by Federal Register, Vol. 55, No. 165, Friday, August 4, 1990, rules and regulations, 12 C.F.R. part 34.42(f) as:

"The most probable price in terms of money which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeable and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1) buyer and seller are typically motivated;
- 2) both parties are well informed or sell advised, and acting in what they consider their own best interest;
- 3) a reasonable time is allowed for exposure in the open market;
- 4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

Limited Summary Appraisal Report

This will be a limited summary appraisal report. Uniform Standards of Appraisal Practice Standards Rule 2-2(a) states "When the Departure Provision is invoked, the assignment is deemed to be a Limited Summary Appraisal. Use of the term Limited Summary Appraisal makes it clear that the assignment involved something less than, or different from the work required by the specific guidelines (of USPAP). The report of a Limited Summary Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken".

PROPERTY RIGHTS APPRAISED

The property rights being appraised are the fee simple interests subject to the special tax lien of the CFD as well as a special tax lien of the Santa Margarita Water District Community Facilities District No.99-1.

Mr. David Doomey Capistrano Unified School District October 15, 2001 Page Four

DATE OF REPORTS

The original summary appraisal report is dated August 15, 2001 with a date of value of July 1, 2001. Subsequently, a limited summary appraisal report dated September 11, 2001 with a date of value of September 10, 2001 was prepared.

EFFECTIVE DATE OF VALUE

These opinions and conclusions are stated as of October 12, 2001.

OWNER OF RECORD

Please refer to the August 15, 2001 summary appraisal report (date of value July 1, 2001).

THREE YEAR SALES HISTORY

Please refer to the August 15, 2001 summary appraisal report and the September 11, 2001 limited summary appraisal report as well as this report.

SCOPE OF APPRAISAL

In the case of the subject project, the following is the scope of the appraisal assignment (extent of appraisal process).

- Collected and reported recorded transactions that have occurred since July 1, 2001 for each active tract
- Collected and reported, on a weekly basis, the number of people ("traffic") visiting the housing developments, the number of sales, the number of cancellations, and the number of recorded sales that have occurred since September 1, 2001.
- Confirmed any new land transactions that have occurred since July 1, 2001.
- Confirmed the amount of costs that has been expended by the master developer since July 1, 2001.

Mr. David Doomey Capistrano Valley Unified School District October 15, 2001 Page Five

- Summarized the tragic events that occurred on September 11, 2001.
- Arrived at a Not Less Value Conclusion.

This report will include departures from the following Uniform Standards of Appraisal Practices.

- Standards Rule 1-3(a,b). This rule applies to highest and best use of the lands and consideration of land use regulations. The appraiser has referenced the original appraisal report.
- Standards Rule 1-4 (a,b,c). This applies to collecting, analyzing, and reconciling market data. While the appraiser has completed a certain amount of this (see above scope), he has not collected all of the transactions that may have occurred within the surrounding market area (a). While in this case it is believed that the appraiser is performing the appropriate methods (see above scope), the cost and income approaches were not considered (b,c).

Between July 1, 2001 and October 12, 2001 the following changes have occurred within the subject project.

- 1. The master developer has expended an approximate \$5,700,000 in backbone and infrastructure costs.
- 2. The master developer has sold two business-planning areas to developers. The master developer has also entered into a sales escrow on residential Planning Area 3-G and currently is in negotiations on the Town Center A and Town Center B sites. The details are as follows:
 - a) BP-7 is in escrow for \$1,500,000 and is scheduled to close in December 2001. This is an approximate 2.33-acre site proposed for mixed-use commercial/office development. The price per square foot of this transaction is higher than the appraised value of the July 1, 2001 appraisal.
 - b) BP-2B recorded in September 2001 for \$2,756,067 (6.31 acres) with an additional 1.53 acres scheduled to close in December 2001. The price per square foot of this transaction is higher than the appraised value of the July 1, 2001 appraisal. The buyer is Nicholas-McKenna II, Inc.

Mr. David Doomey Capistrano Valley Unified School District October 15, 2001 Page Six

- c) Planning Area 3-G is in escrow to Standard Pacific for \$5,463,000 or \$143,763 per lot. The site will be delivered in a rough graded condition. When taking into consideration the in-tract costs, the finished lot costs will exceed \$180,000 per lot, higher than the appraised value attributed to this site in the August 15, 2001 appraisal.
- d) Town Center A and Town Center B are currently in negotiations to homebuilders and are anticipated to be in escrow by the end of October. Town Center A is being sold on the basis of \$100,000 per unit (same as the original appraisal) and Town Center B is being sold on the basis of \$130,000 per unit (higher than the original appraisal).
- 3. The following home sales have occurred since the July 1, 2001 appraisal report.

Project	# Sales	Sales Price Range	Total Revenue
Terra Linda	1	\$424,990	\$ 424,990
Carmel	5	\$518,490-\$533,735	\$ 2,631,255
Solana	12	\$304,990-\$391,700	\$ 4,306,296
Trinidad	8	\$239,645-\$356,475	\$ 2,284,667
Vizcaya	1	\$1,113,400	\$ 1,113,400
Farralon Ridge	15	\$376,990-\$495,464	\$ 6,510,656
Pacifica Summit	8	\$656,476-\$868,008	\$ 6,112,992
Pacifica	1	\$917,100	\$ 917,100
San Rafael	4	\$579,535-\$778,196	\$ 2,687,944
Seaside	19	\$408,825-\$512,427	\$ 8,849,011
Talega Gallery	25	\$339,985-672,562	\$11,963,714

4. The following represents sales activity that has occurred in the Talega project since September 1, 2001.

Reporting Period	Traffic	Sold	Cancelled	Closed
Week ending 9/2	640	4	3	12
Week ending 9/9	686	4	1	2
Week ending 9/16	433	2	3	2
Week ending 10/1	1119	2	0	15
Week ending 10/7	784	20	1	11

By reviewing the statistics for the last month it is evident that the tragic events of September 11, 2001 impacted the project in the short term. However, the most recent statistics indicate a demand for housing product. Some of this can be attributed to the recent opening of the development, Miraleste, which began sales on October 6, 2001 and released and sold 15 homes in the first two days.

Mr. David Doomey Capistrano Valley Unified School District October 15, 2001 Page Seven

It should be noted that a number of projects are "sold out". The amount of inventory is very limited. There are 12 units available in three tracts (Pacifica, Seaside, and Carmel) of Village I, and 54 units available in six tracts (Pacifica Summit, Farralon Ridge, Cantabria, Seagarden, Waterleaf, and Sandbridge) in Village II.

- 5. Discussions with representatives of Talega Associates LLC indicated that they are proceeding with the U.S. Army Corps 404 permit process. According to Bryan Austin of Talega Associates LLC, they are attempting to form a consensus with U.S. Army Corps, Environmental Protection Agency, Fish and Wildlife, and Regional Water Quality Board. The consensus would address streambed stabilization methods that need to be implemented as a result of the construction of the bridges (a requirement of the U.S. Army Corps 404 permit). Mr. Austin indicated that there will be a meeting with Regional Water Quality Board, and he envisions the process to be complete within 30 days.
- 6. The terrorist events of September 11, 2001 and the future threats of terrorist activity have created economic uncertainty. Although it is not possible to predict the economic effect of the terrorist events of that day, it could be significant. This could translate to a slowdown in residential sales and development. As Dr. Maury Harris, UBS Warburg Chief U.S. Economist, indicated in this environment, near term consumption and investment are bound to suffer, although to what precise degree is difficult to answer. Edward Kerchner, UBS Warburg's Chief Global Investment Strategist, indicated that no one really knows how geopolitical and economic events will play out over the next few years. He indicated that it is unlikely that this uncertainty will go away quickly. However, he also indicated that we would learn to live with geopolitical uncertainty, which excluding the decade of the nineties, has been the norm.

SUMMARY

This limited summary appraisal report was prepared to ascertain if the values that were concluded as of July 1, 2001 (date of value) are still valid. While the appraiser has not concluded at new values, it is evident that the home sales have continued and that additional construction of homes has been completed since July 1, 2001. The events of September 11, 2001 may affect future real estate activity, but as of the date of this limited summary appraisal report (October 15, 2001) and based upon this investigation, the appraiser has formed the opinion that the values are not less than the amounts reported in the summary appraisal report dated August 15, 2001.

Mr. David Doomey Capistrano Valley Unified School District October 15, 2001 Page Eight

Furthermore, this limited summary appraisal report is subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification as of the date of value.

Respectfully submitted,

BRUCE W. HULL & ASSOCIATES, INC.

Bruce W. Hull, MAI State Certified General

Real Estate Appraiser (AG004964)

ASSUMPTIONS AND LIMITING CONDITIONS

- 1. This report is a Limited Summary Appraisal Report that is intended to comply with the reporting requirements set forth under the Uniform Standards of Professional Appraisal Practice ("USPAP") for a Limited Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs to the client and for the intended use stated in this report. As such there were departures from the USPAP Standards listed in the report. The appraiser is not responsible for unauthorized use of this report.
- 2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
- 3. The property is appraised subject to the special tax lien of Capistrano Valley Unified School District CFD No. 90-2 and Santa Margarita Water District CFD No. 99-1.
- 4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
- 5. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- 6. All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- 7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- 8. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
- 9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report.
- 10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.

- 11. Any sketch in this report may show approximate dimensions and is included to only assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is express or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
- 12. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is not encroachment or trespass unless otherwise stated in this report.
- 13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials, which may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is not such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
- 14. Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
- 15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
- 16. Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine whether the property is in conformity with the requirements of the American with Disabilities Act. The presence of architectural and communications barriers that are structural in nature and would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.
- 17. That all of the improvements and benefits to the subject property which are to be funded by the 2001 special tax bonds of Community Facilities District No. 90-2 are completed and in place.
- 18. That there are no other restrictions than what are listed on the U.S. Army Corps of Engineers 404 permit (located in the Addenda of the August 15, 2001 summary appraisal report) which would slow or thwart development of the subject property.
- 19. That a U.S. Army Corps of Engineers 404 permit is approved in a timely manner and in the same format as the draft permit (No. 200001687-FX).

APPRAISER'S CERTIFICATION

I certify, 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 is my personal, unbiased professional analyses, opinions, and conclusions.
- 3. I have no present or prospective interest in the property that is the subject of this report and 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. This appraisal was not based on a requested minimum valuation, a specific valuation, or the approval of any specified amount.
- 6. My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal practice.
- 7. I have made a personal inspection of the property that is the subject of this report.
- 8. No one provided significant professional assistance to the person signing this report.
- 9. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- 10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 11. As of the date of this report, Bruce W. Hull has completed the requirements of the continuing education program of the Appraisal Institute.

Bruce W. Hull, MAI State Certified General

Real Estate Appraiser (AG004964)

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SUMMARY APPRAISAL REPORT - COMPLETE APPRAISAL

"TALEGA" PROJECT

Community Facilities District No. 90-2 (Talega)
Capistrano Unified School District
City of San Clemente and Orange County
State of California
(Appraiser's File No. 2001-21)

Prepared For

Capistrano Unified School District 32972 Calle Perfecto San Juan Capistrano, California 92675

Prepared By

Bruce W. Hull & Associates, Inc. 1056 E. Meta Street, Suite 202 Ventura, California 93001

BRUCE W. HULL & ASSOCIATES, INC.

REAL ESTATE APPRAISERS & CONSULTANTS

August 15, 2001

Mr. David Doomey Assistant Superintendent, Facilities Planning Capistrano Unified School District 32972 Calle Perfecto San Juan Capistrano, California 92675

Reference:

"Talega" Project (CFD No. 90-2)

Capistrano Unified School District County of Orange, State of California

Dear Mr. Doomey:

At the request and authorization of the Capistrano Unified School District, I have performed an appraisal of the above referenced lands.

The Talega Project is located in the southwestern portion of the County of Orange and is within the jurisdictions of the County of Orange and the City of San Clemente. The entire project consists of 3,510 acres.

This report is being prepared for the Capistrano Unified School District Community Facilities District No. 90-2 ("CUSD 90-2") financing. While this was the primary purpose of the assignment, I was also requested to prepare an appraisal that is subject to a Covenant Agreement between Talega Associates, LLC and the Santa Margarita Water District Community Facilities District No. 99-1 ("SMWD 99-1"). As a result several different values are reported. The reason being is the CUSD 90-2 financing excludes 66.02 acres of Age Restricted housing while the SMWD 99-1 does not.

I have prepared the appraisal report in three sections. Section I values the "Merchant Builder Owned Parcels". There have been seventeen (17) planning areas sold to eight (8) different residential builders. These sales began occurring in 1998 with several recordings in late 2000. This section has been valued under two premises. Section II refers to all the remaining parcels owned by the master developer (Talega Associates, LLC). This section has been valued under three premises. Section III involved the estimate of values for the homes that have recently sold to individual homeowners.

The purpose of this letter is to summarize the logical process used to arrive at my opinion of market value.

The first step in the appraisal process was to collect demographic information relating to the region and immediate area of the subject. This included the review of a marketing absorption report prepared by Empire Economics dated July 2001, as well as demographic information collected from the County of Orange and other sources.

Mr. David Doomey Capistrano Unified School District August 15, 2001 Page Two

I next inspected the property. There are a number of active residential developments within Phases I and II. The master developer lands are essentially undeveloped. Within the appraisal report there is an aerial photo depicting the entire project.

In the course of my due diligence, I met with the master developer on several occasions, reviewed cost estimates prepared by civil engineers, and collected market data as it relates to residential and business park lands. In the case of the cost estimates, the infrastructure costs ("backbone") had been prepared by RBF Engineering. A separate engineering cost estimate on the "builder costs" (i.e. to complete the lots to a "finished" lot condition) was prepared by Paul Moote, P.E. A copy of the detailed cost estimates that have been prepared on the planning areas has been retained in my working files. A summary of these is located in the Addenda of the appraisal.

As mentioned, the valuation portion of this report was prepared in three sections. Section I is the valuation of the planning areas, which have been sold to the residential merchant builders and the business park acreage. These planning areas are in different stages of construction ranging from completed homes to mass graded lots. Section II is the valuation of the master developer owned lands. Section III is the valuation of the homes that have recently sold to individual homeowners. The values indicated on the following table have been estimated as of July 1, 2001.

SECTION I

Planning		Near Term	Developed	
Area	Builder	Property Value	Property Value	Total Value
1-D/E	Catellus/BHC		\$ 455,000	\$ 455,000
1-F/G	Catellus/BHC		\$ 2,025,000	\$ 2,025,000
1-J	Standard Pacific		\$ 3,100,000	\$ 3,100,000
2-B	Woodbridge		\$ 872,000	\$ 872,000
2-C	Sandbridge	Total Value	Total Value	Total Value
(Age-	Seagarden	Of	Of	Of
Restricted)	Waterleaf	\$14,030,000	\$33,745,000	\$47,775,000
2-F	Lennar		\$ 5,535,000	\$ 5,535,000
2-G	Shea Homes		\$ 8,835,000	\$ 8,835,000
2-H	Lyon		\$ 3,311,000	\$ 3,311,000
2-I	Lennar		\$ 2,300,000	\$ 2,300,000
2-M&P	BHC	\$ 4,656,000	\$12,770,000	\$17,426,000
2-O	BRE		\$10,235,000	\$10,235,000
2-V	Standard Pacific		\$22,600,000	\$22,600,000
2-Q	Standard Pacific	\$11,427,246	\$ 572,754	\$12,000,000
2-R	Lyon Homes	\$11,011,000		\$11,011,000
2-S	ВНС	\$ 8,070,000	\$ 440,000	\$ 8,510,000

Mr. David Doomey Capistrano Unified School District August 15, 2001 Page Three

SECTION I (Cont'd)

Planning Area	Builder	Near Term Property Value	Developed Property Value	Total Value
Bus. Parks BP-1 BP-1 BP-2A BP-2A BP-2B	Makena Burke Talco Ewing Pacific Packaging	\$ 1,627,000 \$ 1,110,000 \$ 288,000 \$ 542,000	\$ 4,180,000	\$ 1,627,000 \$ 4,180,000 \$ 1,110,000 \$ 1,110,000 \$ 288,000 \$ 542,000

The total value for Section I including all Age Restricted lands is \$163,737,000.

The total value for Section I excluding all Age Restricted lands is \$115,962,000.

SECTION II

This section involves the master developer owned properties. I have reported three values under separate premises as follows:

Premise A - The value of all the remaining properties owned by Talega Associates, LLC including all Age Restricted lands is \$89,536,000.

Premise B - The value of the remaining properties owed by Talega Associates, LLC **excluding** all Age-Restricted lands is **\$84,105,000**.

Premise C - The value of the remaining properties owned by Talega Associates, LLC **not impacted** by the need for issuance of a U.S. Army Corps of Engineers 404 Permit is \$24,525,000.

SECTION III

This section addresses the individually owned properties that were recently purchased. The following represents sales that have recorded. The total value for all properties addressed in Section III is stated as:

\$304,884,636

Mr. David Doomey Capistrano Unified School District August 15, 2001 Page Four

The total values derived from Sections I, II and III under SMWD 99-1 are:

Total Valuation	on		\$558,157,636
Section III -	Recorded Sales	-	<u>\$304,884,636</u>
	Including Age Restricted Lands	-	\$ 89,536,000
Section I -	Including Age Restricted Lands	-	\$163,737,000

The total values derived from Sections I, II and III under CUSD 90-2 via two scenarios are:

Section II - Section III -	Excluding Age Restricted Lands Excluding Age Restricted Lands Recorded Sales	- - -	\$115,962,000 \$ 84,105,000 \$304,884,636
Total Valuation	on		\$504,951,636
Section I - Section II -	Excluding Age Restricted Lands Talega Associates, LLC Lands	-	\$115,962,000
	Not Impacted by 404 Permit	-	\$ 24,525,000
Section III -	Recorded Sales	-	<u>\$304,884,636</u>
Total Valuation	on		\$445,371,636

The above values are stated subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification as of July 1, 2001.

This report is defined as Summary Appraisal Report-Complete Appraisal, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP) effective January 1, 2001 for a Summary Appraisal Report. It is also been written to California Debt Advisory Standards dated May 1994. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client. This report is also intended to comply with appraisal standards proposed by California Debt Advisory Commission (May, 1994). The appraiser is not responsible for unauthorized uses of this report.

Mr. David Doomey Capistrano Unified School District August 15, 2001 Page Five

The following narrative summary appraisal report sets forth the data and analyses upon which the opinion of value is, in part, predicated.

Respectfully submitted,

BRUCE W. HULL & ASSOCIATES, INC.

Bruce W. Hull, MAI

California State Certified General R.E. Appraiser (#AG004964)

BWH:dh Attachment

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ASSUMPTIONS AND LIMITING CONDITIONS

- 1. This is a Summary Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
- 2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
- 3. The property is appraised subject to the Santa Margarita Water District Community Facilities District No. 99-1 ("SMWD 99-1") special taxes and the Capistrano Unified School District Community Facilities District No. 90-2 ("CUSD 90-2") special taxes unless otherwise stated in this report.
- 4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
- 5. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- 6. All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- 7. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- 8. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
- 9. It is assumed that all applicable zoning and land use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report.
- 10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.

- 11. Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is express or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
- 12. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is not encroachment or trespass unless otherwise stated in this report.
- 13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials, which may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is not such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
- 14. Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
- 15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
- That the Americans with Disabilities Act ("ADA") became effective on January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. The appraiser is not a qualified expert as to the requirements of the ADA Act. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible noncompliance with the requirements of ADA in estimating the value of the property has not been considered.
- 17. Certain assumptions as to bond size and fund balances were obtained from Development Planning and Financing Group, UBS/PaineWebber, and David Taussig & Associates, Inc.
- 18. Excluded is an affordable housing site that is designated as Planning Area 2-N.
- 19. If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment.

- 20. It is an assumption of this report that the U.S. Army Corps of Engineers 404 Draft Permit (located in the Addenda of this report) receives final approval in a timely manner and in substantially the same form as the draft permit.
- 21. It is an assumption of this report that the funds currently escrowed by Rancho Santa Margarita Water District Community Facilities District 99-1 are released.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the value of the fee simple interest, subject to special taxes of CUSD 90-2 and SMWD 99-1, a portion of which is located in City of San Clemente and a portion of which is located within the unincorporated boundaries of Orange County.

NTENDED USE OF THE REPORT

It is my understanding that this report will be utilized by the client, Capistrano Unified School District, in determining the feasibility of issuing bonds of the CFD on the subject property and may be included in an Official Statement for the proposed bond issue. It is also prepared to satisfy the requirements of a covenant between Talega Associates, LLC and SMWD 99-1.

DEFINITIONS

arket Value

The term "market value" as used in this report is defined as being:

"The most probable price which a specified interest in real property is likely to bring under all the following conditions:

- Consummation of a sale occurs as of a specified date.
- An open and competitive market exists for the property interest appraised.
 - The buyer and seller are each acting prudently and knowledgeably.
 - The price is not affected by undue stimulus.
- The buyer and seller are typically motivated.
- Both parties are acting in what they consider their best interest.
 Marketing efforts were adequate and a reasonable time was allowed for e
- Marketing efforts were adequate and a reasonable time was allowed for exposure in the open market.
- 8. Payment was made in cash in U.S. dollars or in terms of fluancial arrangements comparable thereto.
 - The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

Finished Lot

Finished Lot is defined as:

"a parcel which has legal entitlements created by a recorded subdivision map. The physical condition being a fine graded level pad with infrastructure contiguous to each individual lot and consisting of asphalt paved roads in addition to the necessary utilities. This condition assumes the payment of all applicable development fees with the exception of building permit and plan check fees."

Blue Top Lot

A Blue Top Lot is defined as:

"a parcel which has legal entitlements created by a recorded subdivision map. The physical condition being mass graded with streets cut out and individual lots terraced. Utilities are supplied to property line only."

Mass Graded or Superpad Parcel

A Mass Graded or Superpad Parcel is defined as:

"a parcet which has legal entitlements created by a recorded subdivision map. The physical condition being a mass graded pad only. There are no streets cut or terracing completed. Utilities are supplied to the property line only."

Near Term Property

Near Term Property is defined as:

Yeal property within the District (i) with respect to which an "A" map creating conveyable parcels has been recorded with the County Recorder; (ii) for which grubbing and clearing are complete; (ii) for which grubbing and clearing are complete; (iv) with respect to which and (B) grading on a materials moved basis is 90% complete; (iv) with respect to which a paved public access road with ulitities, other than water sewer, are completed to within 100 yards of each proced and, with respect to water and sewer utilities, a final "A" map will serve letter has been executed by Santa Margarita Plater District covering all of the Near Term Property; and (v) with respect to which no building permit for residential units or a non-residential building has been issued."

The Appraisal of Real Estate, Eleventh Edition (definition adopted by the Appraisal Institute in 1993).

² Bond Indenture Between Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) and U.S. Bank Trust National Corporation dated as of May 1, 2001.

PROPERTY RIGHTS APPRAISED

The property rights being appraised are the fee simple interests subject to the special tax created by CFD No. 90-2 (Capistrano Unified School District) and CFD No. 99-1 (Rancho Santa Margarita Water District).

EFFECTIVE DATE OF VALUE

The subject property is valued as of July 1, 2001

DATE OF REPORT

The date of this report is August 15, 2001.

OWNER OF RECORD

Talega Associates, L.L.C, various residential merchant builders, as stated in Section Lof this report, and individual homeowners, which are listed in Section III of this report.

LEGAL DESCRIPTION

A lengthy description is included in the Addenda of this report.

APPRAISAL DEVELOPMENT AND REPORTING PROCESS

As stated above, the purpose of this appraisal is to report the appraiser's best estimate of the market value subject to the CFD special tax. This report will be presented in the format described below.

 A regional and city description followed by a description of the immediate area surrounding the property.

- A brief description of the subject Community Facilities District.
- A summary of the Talega Specific Plan.
- A description of the subject property.
- A Highest and Best Use Analysis for the subject property.
- Section 1 Valuation will address the Planning Areas that have recently sold to Residential Merchant Builders (Phases 1, 2A and the majority of 2B).
- Section II Valuation of the Master Owned properties. These values will be reported via
 three premises: A) The remaining properties owned by Talega Associates, LLC
 including Age Restricted (or Senior Housing); B) The remaining properties owned by
 Talega Associates, LLC excluding Age Restricted; and C) Properties owned by Talega
 Associates, LLC which can be developed without a U.S. Army Corps of Engineers 404
 Pennit.
- Section III Valuation of Individually Owned Properties that have been purchased from Merchant Builders (recorded sales). These consist of 682 units.
- A Summary of the Appraisal Report.

In the Section I Valuation a number of planning areas will be valued based on the highest and best use conclusion. The valuation methodology considered in Section I would be the Sales Comparison Approach. The Discounted Cash Flow ("DCF") Analysis will be considered for any remaining finished homes owned by the Merchant Builder (i.e. standing inventory).

In the Section II the property will be valued via a DCF also known as the Development Procedure. This is defined as

The procedure for valuing undeveloped acreage that involves discounting the cost of development and the probable proceeds from the sule of developed sites."

This DCF takes into account the retail lot value ("finished lot") as part of this process. In determining the finished lot value the Sales Comparison Approach will be utilized.

³The Dictionary of Real Estate Appraisal, AIREA, 1989

In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject property that have been recently sold, are listed for sale, or under contract (i.e. for which purchase offers and a deposit have been recently submitted). After determining the retail value of the subject property (Gross Revenues), the next step in the DCF Analysis is to determine an absorption period for the sale of the remaining units owned by the master developer. Next, the costs associated with the subject development (to bring the lands from the current condition) to a "finished lot" condition need to be determined along with a construction schedule. These costs need to be deducted from the Gross Revenues. Next, the carrying costs associated with the project need to be addressed along with estimated marketing costs and contingency factors associated with the development of the time value of money; (2) the risk associated with the project; and (3) profit due to the master developer. The analysis of the above revenues and costs results in a present value of the subject property in its "as is" condition.

The Section III Valuation focuses on the individually owned properties. As indicated in this section, these sales are considered to represent Market Value. A list of the recorded sales is included in this section indicating sales date, sales price and owner's name for each property.

SCOPE OF APPRAISAL ASSIGNMENT

The scope of this appraisal assignment involved the following.

- A review of the Limited Liability Company Agreement of Talega Associates, LLC dated May 29 1997.
- A review of the Agreement between Capistrano Unified School District and Arvida/JMB Partners L.P. II dated April 16, 1991; and subsequent Amendment No. 1 dated May 30, 1997.
- A review of the Official Statement for the bond issue by Santa Margarita Water District (Improvement District No. 71A, 1984 bonds, Series A, dated August 1, 1990) and the Official Statement for Santa Margarita Water District CFD No. 91-1.
- A review of the Development Agreement between the City of San Clemente and Talega Associates, LLC dated October 2, 1998.

 A review of Development Agreement between the County of Orange and Talega Associates, LLC recorded October 5, 1999.

- A review of the Talega Specific Plan dated June 1992.
- A review of the Talega Environmental Impact Report, prepared by EDAW, Inc. dated August 26, 1998.
- A review of the County of Orange Board of Supervisors Resolution No. 90-259 canceling the Agriculture Preserve which had affected a portion of the property.
- 9. A review of cost prepared by The Moote Group dated November 11, 1998. These cost estimates are identified as "Builder Improvement Costs" and relate to the obligation of the merchant builder to complete lots to a "finished lot" condition from either a mass graded pad or a blue top condition. A detailed list of these costs is located in the appraiser's files.
- 10. A review of costs for "backbone" infrastructure. These costs were determined by the engineer to be reasonable.*
- A draft report on biological information to support issuance of an Interim Habitat Loss Permit for a portion of the Talega Development Project (May 18, 2000).
- 12. A review of a 1603 permit extension request dated April 19, 2000.
- 13. A review of comments by the developer relating to Streambed Alternation Permits.
- A review of the Market Absorption Study of Community Facilities District No. 90-2 prepared by Empire Economics dated July 2001.
- A review of tract maps that effect the subject property.
- 16. A review of the Area Plan 89-82 and related entitlement actions by the San Clemente City Council on March 17, 1999.
- 17. A review of the recorded transactions of purchase by individual homeowners that have occurred for each Planning Area. In addition, a review of the pending transactions and status of each of the homes in the Planning Areas was completed.
- A collection of market data retaing to the different product types proposed within the Talega Project.

Refer to correspondence dated August 13, 2001 located in the Addesida of this report. ϵ

GENERAL AREA DESCRIPTION

LOCATION

Orange County encompasses a total of 798 square miles, which include 42 miles of coastline along the Pacific Ocean and 4 miles of inland water. Orange County is bordered by San Diego County to the south, Riverside and San Bernardino Counties to the east; Los Angeles County to the north; and the Pacific Ocean to the west. The County, and South Orange County. The subject is located in North Orange County, Central Orange County, which encompasses the communities of Irvine, Lake Forest, Laguna Beach, Laguna Hills, Aliso Viejo, El Toro, Mission Viejo, Rancho Santa Margarita, Coto de Caza, Dove Canyon, San Juan Capistrano, Dana Point, Capistrano Beach, San Clemente and smaller unincorporated areas. The natural terrain varies from coastal beaches to foothilts and the mountainous region of the Cleveland National Forest along the northeast boundary line of Orange County. The climate is generally Mediterranean with sunshine and moderate to low rainfall.

POPULATION

The population of Orange County had extremely rapid growth between the years 1960 through 1970. Sometime between mid-1989 and mid-1990, a recession began in Orange County as with the rest of Southern California. In December of 1994, the County of Orange filed bankruptey. The year 1996 appeared to begin a slow recovery for the County while 1997 resulted in a full recovery as the economy is strong once again. As shown in the following chart, the population has continued to show positive growth throughout the 1990's recession with the exception of 1996, which had a 0.6% decline.

Vear	Population	Annual Increase	Percent Increase
0961	703,925		
1970	1,420,386	71,646	8.5%
1980	1,931,570	51,118	3.6%
0661	2,410,556	47,899	2.5%
1661	2,453,300	42,744	1.8%
1992	2,512,200	58,900	2.4%
1993	2,557,300	45,100	1.8%
1994	2,596,500	39,200	1.5%
1995	2,641,400	44,900	1.7%
9661	2,624,300	(17,100)	(0.6%)
1997	2,647,200	22,900	0.9%
2000	2,846,289	66,363	2.1%
2010	3,104,100	25,781	0.9%
2020	3,306,400	20,230	%9:0

Source: Focus Orange County

Current growth predictions are much lower than the 1.8% per year historical growth rate in Orange County, which occurred from 1990 to 2000. Orange County is still projected to grow by the size of a small town of about 23,000 people every year for the next twenty years. Put in absolute numerical terms rather than a percentage, the County's anticipated population growth is far from stagnant.

HOUSING

The housing growth in Orange County has paralleled the population growth. The 2000 Census reported the average household size to be 3.063 persons, which translates to approximately 966,086 housing units. In January of 2000, the population in Orange County was 2,846,289, an increase of 18.1% from the 1990 census. This translates to an average annual growth rate for households of approximately 1.8%. Future predictions from County Planning Departments are for the household size stabilizing at 3.0 persons per household. Most of this population growth is expected in South Orange County where there is still land available for development.

Most statistics are showing slower economic growth for the Orange County economy continuing through the year 2001. Orange County housing prices saw a decrease during the recession of the

early 1990's along with the remainder of Southern California. Sales were down substantially from 1989-1990 prices with values beginning to recover in 1995. Since 1995 prices of housing have surged with new home prices for 2nd quarter 2001 at \$440,000, an increase of 9.5% from a year earlier.

An Empire Economics report (07/01) has indicated the following demand in Southern California.

New Housing Demand	73,265	100,285	112,176	92,451	73,917	
Time Periods Employment Growth New Housing Demand	189,192	•	•	•	131,938	!
Time Periods	2001	2001-2005	2006-2010	2011-2015	2016-2020	

Another report prepared by Ernst & Young, LLP (1/01) stated

"Demand for new homes in the coastal counties remains strong. However, new home demand in all Southern California counties will slow in 2001 due to lower job growth, thus reducing demand for housing."

Both reports indicate the demand for new housing in the South Orange County marketplace, although it appears that it will be at a slower rate. Empire Economic states the following in their April 2001 report as it relates to the subject project.

"Therefore, as the various Planned Communities ("PC") approach build-out, there is a reduction of the supply of residential products that are coming to the marketplace. During 2000, the rate of absorption declined to some 3,000 units, as compared to 4,500 units in the prior years. Furthermore, most of the remaining supply is concentrated in the PC of Talega and Ladera, which are developing on a phase-phase basis. Consequently, if the current economic and financial market conditions continue to generate a strong demand for housing, then the residential market in south Orange County may encounter a significant supply shortage. Thus, the residential market conditions for the currently active and forthcoming PC, such as CFD No. 90-2 (Talega), are expected to be favorable."

A report entitled "Insight and Analysis" prepared by E&Y Kenneth Leventhal Real Estate Group (January 2001) summarized the housing market from 1994 through the year 2000 as follows.

	Orang	e County	Orange County Housing Market	Market			
	1994	1995	1996	1997	8661	1999	2000
New Homes Sales	7,218	6,227	7,175	7,844	5,500	6,000	9'000
New Homes Price Change	4.8%	(3.1%)	1.6%	7.0%	22.0%	15.0%	15.0%
Existing Homes Sales	28,504	22,748	27,675	33,767	47,000	42,000	40,000
Existing Home Price Change	(0.4%)	(3.1%)	(%1.1)	4.9%	%0:01	10.0%	10.0%
Building Pennits				•			
Single Family	7,656	5,663	7,070	8,219	7,308	8,027	6,302
Multi-Family	5,079	2,637	3,137	4,032	2,735	4,321	5,368
Total	12,644	8,300	10,207	12,251	10,043	12,348	11,670
Affordability Index	45%	40%	40%	39%	36%	35%	28%

*Through November 2000

According to this report, demand outstripped availability of lots in 1999, resulting in double-digit appreciation for new and existing homes at rates of 12.2% and 4.4%, respectively. However, appreciation is anticipated to slow as a result of slower economic growth.

The E&Y report states that the majority of recent new housing has been located in South Orange County. The report states that this is where the County's remaining undeveloped land is located and where a large proportion of new high-paying, high-tech jobs are located. This report indicted that solid demand and limited supply should "help to keep new home price appreciation moving forward albeit at a slower rate". This report also states that this situation is expected to continue into the long-term future.

EMPLOYMENT/ECONOMY

The State Employment Development Department (EDD) indicated that Orange County's jobless rate was 2.50% as of May 2001. This is a slight increase from the rate of 2.25% in May 2000. This compares favorable when compared to the unemployment rates of 4.8% in Los Angeles and 4.9% in California for the same time period. The total number of non-farm jobs in Orange County grew to

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1,414,800. Services, trade, retail and manufacturing have had positive changes since January 2001. Government employment trends have decreased slightly. Biggest increases were in Amusement (+10.1%) and General Construction (+9.5%) with the largest decreases in Federal Non-Defense (-28.1%) and Canned/Frozen Food Industries (-15.8%).

The years 1997 and 1998 saw economy recovery from the 1990-1995 recession. This was indicated by new construction and leasing activity countywide. Thus far, 2001 has seen an economic slowdown with monthly employment growth slowing in the second half of 2000 from 3.2 to 2.8%. The median price of a home in Orange County was \$276,000 in January 2001, down sharply from December's all-time high of \$292,000; however, the median price rose 10% from a year ago. Appreciation is anticipated to continue but at a slower rate.

TRANSPORTATION

Transportation throughout the County consists of an extensive freeway system, a toll road system, a commercial airport, public bus service, Antrak passenger rail service, and freight rail lines.

By far the most widely used transportation in the County is the automobile. In 1991, voters approved Measure M that provides for a one-half cent sales tax increase to provide for transportation demands in Orange County. As a result, many of the Orange County freeways have recently been or are currently being upgraded. Prior to the opening of the Foothill Transportation Corridor, the only access to inland South Orange County was via El Toro Road, which was extremely congested. Currently the Foothill Corridor helps alleviate this traffic problem making inland South Orange County more accessible. The corridor is anticipated to be constructed to the San Clemente area. This is anticipated to occur within the next six years (2007). In addition, San Joaquin Hills Transportation Corridor is a corridor that provides a direct route between Newport Beach (MacArthur Boulevard) and Laguna Hills/Laguna Niguel (Interstate #5) making the commute approximately one half the mileage and time, which was previously needed. The San Joaquin Hills Transportation Corridor bisects the community of Aliso Viejo. Both of these new corridors are toll roads which are helping to alleviate traffic on Interstate #5 and the #405 Freeway and access to South Orange County casier.

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SUMMARY - ORANGE COUNTY

Orange County has benefited from its desirable location, favorable climate, extensive recreation amenities, and employment opportunities. Population and housing base gains have grown steadily due to these factors coupled with its diversified economy. The bankruptcy of the County did not appear to have a significant affect on growth in the County. The County began to exhibit signs of recovery from the 1990's recession in 1995 with a stronger recovery in 1996, and 1997 and 1998 showing exceptional economic strength. While there appears to be a slowdown from economic growth when compared to the 1996 to 2000 time period, the long term forecast for the County is for continued growth.

CHRONOLOGICAL HISTORY OF THE TALEGA PROJECT

The following is a summary of chronological events as it relates to the subject masterplanned development.

June 1982: Broadmoor Development Company submits a specific plan for Talega Valley, which was subsequently withdrawn. June 1983: Rancho Mission Viejo Company submits a specific plan. Plan was a subject of a preliminary EIR prepared by Westec Services.

September 1984: Rancho Mission Viejo Company amended the specific plan.

April 1987: Santa Margarita Company transfers 1,420 acres to Talega Valley Partnership for total consideration of \$13,758,030.

April 1,1987: O'Neil/Avery Trust transfers 771.070 acres to Talega Valley Partners for \$7,629,483.

April 1, 1987: San Juan Company transfers 10.278 acres to Talega Valley Partners for \$612,487.

May 4, 1988: Final Environmental Impact Report No. 482 was approved by County of Orange (Resolution No.88-620).

May 4, 1988: Feature Plan approved for portion in the County of Orange referred to as Rolling Hills (Resolution No. 88-620).

May 4, 1988: Planned Community Regulations approved in the County of Orange referred to as Rolling Hills Community (Resolution No. 88-620)

August 10,1988: Final EIR (84-02) approved by the City of San Clemente for portions of the lands within the City of San Clemente.

August 10, 1988: General Plan Amendment approved by City of San Clemente (Resolution No.

August 10, 1988: Talega Valley Specific Plan (SP 84-02) approved by Resolution No. 88-64.

March 9, 1989: US ACOE 404 Permit

March 16, 1989: CDFG 1603 Permit

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March 28, 1989: Regional Circulation Funding and Phasing Program approved by the City of San Clemente.

April 7, 1989: US ACOE 404 Permit

May 8, 1989: Talega Valley Partnership transfers 2,201.752 acres to Arvida/Talega Valley Limited Partnership for \$76,943,013.

February 15, 1989: Local Park Implementation Plan approved by City of San Clemente.

February 22, 1989: Local Park Implementation Plan approved by County of Orange.

March 13, 1989: Resource Management Plan approved by County of Orange.

June 23, 1989: Resource Management Plan approved by the City of San Clemente.

September 13, 1989: Zone Change 89-06 approved by the County of Orange (Resolution No. 89-

October 4, 1989: Tentative Tract Nos. 13873, 13874, 13875 and 13876 approved by the County of Orange.

County of Clange.

December 7, 1989: Tentative Tract Nos.13878, 13879, 13880 and 13881 approved by the County

of Orange.

March 21, 1990: Cancellation of Williamson Act Agreement approved by the County of Orange (Resolution No. 90-259).

January 3, 1990: Tentative Tract Nos. 13884, 13885, 13886,13887 and 13892 approved by the County of Orange.

April 18, 1990: Rancho Mission Viejo Conservancy approved by the City of San Clemente.

August 18, 1990: Runoff Management Plan approved by the County of Orange.

February 15,1990: Tentative Tract Nos. 13888, 13889, 13890 and 13891 approved by County of

July 9,1990: Rolling Hills Feature Plan Amendment approved by County of Orange (Resolution No. 90-24).

September 13, 1990: Revised Tentative Tract Nos. 13873, 13883, 13884 and 13885 approved by the County of Orange.

April 3, 1991: Tentative Tract Nos. 13683, 13684, 13686 and 13935 approved by City of San Clemente.

Revised tentative tract map approved by County of Orange.	April 7, 1999:	City approval of TTM 17563 and SPP 98-110/111; TTM 15765 and SPP 98-113.
Final EJR for the Foothill Transportation Corridor - Oso Parkway to Interstate 5 adopted.	April 16, 1999:	City approval of Final Tract Map Nos. 13683, 13684, 13685 and 13686.
Talega Specific Plan approved by Amendment 91-58.	April 19, 1999:	City approvat of Final Tract Map No. 15756.
City of San Clemente General Plan amended as it relates to Talega Valley.	April 22, 1999:	County approval of PA 99-0015
Talega Valley LLC agreement to purchase Talega Valley for \$33,000,000.	May 5, 1999:	RDEB Awards.
Draft revisions submitted to San Clemente Regional Circulation Financing	May 25, 1999:	County approval of SP 99-602, Sp 9-6035 and SP 99-039.
and Phasing Program.	June 2, 1999:	County approval of TTM 15798.
USFWS Section 4(d) Permit - Phase I	June 16, 1999:	Talega Joint Planning Authority and 4th Addendum to EIR 84-02.
Addendum to Specific Plan submitted to City of San Clemente.	July 7, 1999:	Encroachment Pennit 99-38.
US ACOE 404 Permit Phase I	July 27, 1999:	CUP 99-53 and 99-54.
Area Plan submitted to City of San Clemente for Planning Areas B, C, G, H and I with portions of Planning Areas D and E submitted to City of San	August 4, 1999:	City approval of TTM 14228, CUP 99-83 and SPP 99-57.
C'lemente.	August 4, 1999:	County approval of TTIM's 13898 and 15868.
Development Agreement executed between the City of San Clemente and Talega Valley LLC.	August 10, 1999;	FPA 99-0106 (FPA #4) and 5th Addendum to EJR 482.
Specific Plan Amendment submitted to City of San Clemente.	August 17, 1999:	City approval of SPP 99-106.
Third Addendum to previously certified EIR 84-02 submitted to City of San	August 24, 1999:	City approval of CUP 99-96 and 99-93.
Clemente for purposes of updating LHK to address the Talega Area Plan. A series of land transactions with merchant builders. These are detailed in	August 24, 1999:	Talega Joint Planning authority; Development Agreement 98-1; and 6th Addendum to EIR 482.
the Three Year Sales History section of this report.	September 1, 1999:	First Amendment LPIP; County approval of TTM 15854; 7 ^a Addendum to FIR 482
ARP 98-82, a 713.2-acre portion of Talega. Uses within this Area Plan are 1,261 residential units, 315.4 acres of open space and golf course, 7 acres of	September 21, 1999:	September 21, 1999: County approval of Final Tract Map 13873 and Final Tract Map 15799.
public facilities, 42.5 acres commercial use, 17.5 acres potential development area, and 59.3 acres of roads.	September 24, 1999:	September 24, 1999: Master, Supp & Maint. CC&R's.
San Clemente City Council approves Area Plan 98-82.	October 6, 1999:	TTM 14227
City approval of TTM 15764 and SPP 98-112; TTM 15766 and SPP 98-114.	October 8, 1999:	Annexation No. 1 to the City of San Clemente.

December 17, 1998:

October 1998:

October 9, 1998:

December 1998:

November 4, 1997:

June 13, 1997:

May 6, 1993:

June 1992:

February 1998:

March 9, 1998:

March 1998;

August 1998:

March 21,1991:

October 1991:

February 16, 1999:

SPP 99-131 and 133; CUP 99-132 and 134.

October 19, 1999:

County approval of TTM 15799 (Planning Areas 80 and 81).

March 17, 1999:

March 17, 1999:

March 17, 1999:

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City - SPA 98-05 and SEIR; Final Tract Map Nos. 14224 and 14226; and TTM 16123/SPP 2000-xx. County - Final Tract Map Nos. 13880, 15953, 15954 and 15955. Approval of Final Tract Maps 15947 and 15948 Approval of Final Tract Maps 14224 and 14226 County approval of Final Tract Map 13868. City approval of Final Tract Map 14228. November 30, 2000: SMWD Tank Site Quitclaim/Grant Deed TPM 2000-223, SPP 00-193 and 00-209 Standard Pacific Model CUP Extension November 21, 2000: Minor CUP 00-187, Minor SPP 00-188 Standard Pacific Model CUP Extension City Encroachment Permit 00-22. Neighborhood Park Master Plan. Lot Line Adjustment 2000-101. Lot Line Adjustment 2000-97. SPP 00-165, VAR 00-166 TTM 16124/SPP 00-100 TTM 16071, SPP 00-78 Annexation Batch 2 Annexation No. 12 Annexation No. 9 SPP 00-142 November 14, 2000: December 19, 2000: November 1, 2000; December 6, 2000: October 31, 2000: October 10, 2000: October 24, 2000: August 16, 2000: October 4, 2000: January 2, 2001: August 1, 2000: June 19, 2000: June 21, 2000: June 29, 2000: July 26, 2000: uly 21, 2000: luly 6, 2000: Pending: Pending: Pending: Site Plan 99-193; TTM 15955; Site Plan 99-201; and Master Signage Program 00-02. TTM 15921/SPP 99-146/CUP 99-147; TTM 15953/Site Plan 99-182; and City approval of TTM 14224/SPP 99-159 and TTM 14226/SPP 99-158. November 29, 1999: County approval of Site Plan99-155 and Site Plan 99-135. Master Signage Program 00-02 and Site Plan 99-193. FPA 00-45 (FPA #5) and 8th Addendum to EIR 482. TTM 13880 Revision No. 4 and site Plan 00-15. Annexation No. 2 to the City of San Clemente. November 19, 1999: County approval of Final Tract Map 15798. TTM 15764 Sub. Conformance Finding. USFWS Section 4(d) Pennit - Phase II Affordable Housing Option Agreement. Extension of TTMs 13878 and 13880. AVH Int. Reimbursement Agreement. Final Tract Maps 13878 and 13894 extension of 1TMs 13884/13885. TTM 15954/Site Plan 99-187. Lot Line Adjustment 99-169. Lot Line Adjustment 99-172. Minor Arch Pennit 00-53. Business Park CC&R's. City Annexation No. 3. Site Plan 99-189. December 15, 1999; December 22, 1999: December 1, 1999: February 15, 2000: February 22, 2000: February 24, 2000: February 10, 2000: January 25, 2000: January 20, 2000: March 23, 2000: April 13, 2000: May 16, 2000: May 17, 2000: April 4, 2000: May 30, 2000: May 30, 2000: June 15, 2000: June 15, 2000: May 9, 2000: June 7, 2000:

Amended TTM 13935/SPP 90-54

Pending:

COMMUNITY FACILITIES DISTRICT NO. 90-2

The Capistrano Unified School District had entered into a school mitigation agreement with Arvida/IMB Partners, LP II (the "Company") who were the owners of the property within the boundaries of CUSD. The purpose of this agreement was to mitigate the anticipated need for school facilities to house students generated by the anticipated development of these properties. This agreement was executed on April 16, 1991.

According to the proposed financing, the total tax rate (including ad valorem tax rate of 1.003) would vary according to land use. These tax rates are overall 1.7% for the residential product. These tax rates took into consideration the Santa Margarita Water District CFD No. 99-1 and the subject Capistrano Unified School District CFD No. 90-2.

PROPERTY TAXES

State of California Department of Fish & Game 1603 Agreement

U.S. Fish and Wildlife 4(d) Permit

U.S. Army Corps of Engineer 401/404 Permit

AM SPPs 98-112 and 99-131

Pending:
Pending:
Pending:
Pending:
Pending:

SPA 98-05 and SEIR

Please refer to the Addenda of this report.

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AMENDMENT NO. 1 TO MITIGATION AGREEMENT

This document was executed on March 29, 1996. Arvida/JMB Partners, LP II sold all of the property located within the boundaries of CFD No. 90-2 to Talega Associates, LLC as of May 30, 1997, and as of said date Talega Associates, LLC has assumed all obligations and succeeded to all rights of Arvida/JMB Partners, LP II.

CUSD and the Company had previously entered into an agreement between Capistrano Unified School District and Arvida/JMB Partners, LP II dated April 16, 1991. The Mitigation Agreement is now in full force and effect. CFD No. 90-2 was formed and authorized to levy special taxes and to issue bonds not to exceed \$10,000,000 for the purpose of funding the costs of acquiring, leasing and constructing certain school facilities to mitigate the impact of the development of the Property. CUSD and the Company has amended the Mitigation Agreement to change the school site description, the source of payment thereof, and the CFD No. 90-2 special tax rates to increase the permitted bond authorization to \$50,000,000.

An Amended and Restated Rate and Method of Apportionment for CFD No. 90-2 was prepared by David Taussig & Associates, Inc. (dated June 7, 1999). The 1999/2000 Assigned Special Tax Rates for Developed Property and Taxable Senior Housing Property are listed below. The maximum tax is the greater of the assigned special tax and back-up tax.

Assigned Special I ax 1999/2000	.3294 per sq. ft. of residential floor area	.3294 per sq. ft. of residential floor area	.0599 per sq. ft. of non- residential floor area
Description	Residential Property	Taxable Senior Housing Property	Non-Residential Property
Land Use Class	_	2	3

The maximum tax rate escalates at 2% per year beginning in 2000/01. The undeveloped land will be taxed on the basis of \$6,177 per acre escalating at 2% per year. A complete copy of the Amended and Restated Rate and Method of Apportionment is included in the Addenda of this report.

DEVELOPMENT AGREEMENTS

The subject project is currently bisected by two jurisdictions. The property is located within the City of San Clemente and the County of Orange. The City of San Clemente executed a Development Agreement on October 7, 1998. The more pertinent details are as follows.

October 2, 1998 Date: Talega Associates LLC Developer:

City of San Clemente Jurisdiction:

Land

,604 acres of land located in the City of San Clemente. In addition Developer and City desire to annex the Sphere of Influence Property to the City. (This is an additional 792 acres that is currently within the unincorpo-

rated area of Orange County.)

Iwenty years

Density: Term:

Section 3.2.2 indicates the total number of market residential units to be constructed within the Property shall be a maximum of 2,265 units. (Property

refers to the 1,604 acres within the City.)

For planning areas that do not receive the full maximum allowable of residential units due to site planning considerations, the Development Agreement allows the transfer of density to other planning areas.

Measure B:

Density Transfers:

Measure B is a growth initiative that limits the annual number of residential units to 500. As part of the Development Agreement (Section 3.10.2) both parties agree "During the Term of the Agreement, City agrees that no amendment to Measure B and no policy shall apply to the Property if and to allocations that City can approve or issue in any one year below the number of allocation now authorized by Measure B or (ii) further reduces or restricts the extent that the same either (i) reduces the number of residential the exemptions set forth in Sections 15.44.020 of the Municipal Code.

As part of the Development Agreement the developer has agreed to pay certain fees. These are detailed below.

Fees:

Recreation fee of \$1,500,000 paid within 10 days of effective date of the development agreement.

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- Fire station fee of \$1,500,000. ъ.
- A Park Fee in the amount of \$15,500,000. This fee is to be paid by Developer prior to recordation of tract map based on an amount of \$3,121.85 per unit. ز
- "85-01" Sewer Bond Assessment fee in the amount of \$1,618,218.90 to be paid no later than March 4, 1999. After the payment of that fee the Developer will be entitled to 196,120.27 gallons per day of wastewater treatment from City's wastewater plant. (This has been paid.) ij
- RCFPP/Traffic issues. Developer shall pay RCFPP fees based upon 4,400 residential units and 1,800,000 SF of commercial and business park square footage. ئ

Development

The City has evaluated the traffic impacts associated with the project and has determined that per conditions of 5.3 that have been cited, the development of violating LOS standards. (LOS is referred to standards set forth in the City existing General Plan and RCFPP for defining the traffic service levels on 3,400 residential units can be accommodated in the Talega Property without roadways and intersections.)

> Avenida Vista Extension of

Avenida La Pata: Hermosa and

City and Developer agree to a maximum cost of \$4,800,000 for the construction cost and offsite pad improvements for the La Pata extension. The BIR has been updated per the CEQA review process and has been Specific Plan Amendment

resubmitted. Approval is anticipated in December, 2001.

Developer shall pay a \$4,500,000 impact fee for the processing and approval of the Specific Plan Amendment.

Impact Fee:

Environmental

Review:

Section 11.4 cites the following as it relates to Environmental Review.

and reports, and City shall process such matters in accordance with this section 11.4 and, to the extent permitted by CEQA, shall use and adopt existing environmental reports and studies without requiring new or 'With respect to meeting any requirements of CEQA, Developer shall provide all information required of it and shall pay for any necessary studies supplemental environmental documentation."

A separate development agreement between Talega Associates LLC and the County of Orange was recorded on October 5, 1999 (Document No. 19990706758). The following represents pertinent information from this document.

Talega Valley LLC Developer:

County of Orange Jurisdiction:

Recorded October 5, 1999 Date:

Regulation Governing the Development of

the Property:

maximum height and size of buildings (per Development Plan); reservation and dedication of lands for public purposes and participation in RCFPP; no density increases; and timing of development (at This section deals with permitted uses (in accordance with existing land use); total number of units; density (as set forth in Development Plan);

owner's discretion).

Regulation of Development:

This section specifies that the owner is provided and assured the vested

right to develop the property.

August 1, 2014 Term of Agreement:

Effect of Agreement

on Title:

Subject to Sections 6 an 15, the covenants of the Agreement run with the land.

Per Exhibit D, the Development Agreement Public Benefits are as follows: Development Agreement Benefits to County and

Its Residents:

- 1) Foothill Transportation Corridor Owner will participate in Foothill Transportation Corridor Fee Program and provide right-of-way for the corridor, which transverses the Property.
- Extension of Avenida La Pata Owner shall participate in supplementary Avenida La Pata Road Fee Program. 7
- Additional Highway Improvements This would include funding of improving Ortega Highway (Owner's obligation being \$950,000). 3

4) South County Natural Community Conservation Plan Contribution of \$250,000.

5) Library - Owner will pay a library fee of \$300 per residential unit.

Scenic Preservation Easement - Owner will provide a scenic preservation easement over the 18-hole golf course ଡ

7) Child Care - Owner agrees to participate in a child-care facility.

8) Drainage and Flood Control Facilities - Owner shall construct master plan local drainage and flood control facilities required by Development Approach per "Talega Valley Runoff Management Plan (January 1990)".

Owner shall prepare and submit to County, in consultation with the City, Riding and Hiking Trails and Class I Bikeway Plans. Regional Riding and Hiking Trails and Class I Bikeway Plans -6

identified for improvements in connection with construction of the 10) Streambed Restoration - Owner shall restore the streambed golf course.

TALEGA VALLEY SPECIFIC PLANS

The Talega Project consists of 3,510 acres within the jurisdiction of the City of San Clemente and the County of Orange. Both jurisdictions have approved specific plans on their portions of the property. The City of San Clemente approved the Talega Specific Plan in 1988 with an amendment on July 1, 1992 (SPA 91-58). In addition there was an amendment (SPA98-05) submitted in September 30,1998. This amendment is currently pending and action is anticipated to be considered in the later part of 2001. The County of Orange approved The Rolling Hills Feature Plan in September of 1989. In August of 1992, two amendments were adopted, and in October 1998 a third amendment was approved which reconfigured the golf course and further refined the loop collector road. The most recent amendment to the Feature Plan (FPA 00-45) was submitted to climinate health facilities land use designation and expand two medium high-density residential areas.

The following represents the existing land uses per jurisdiction.

		Acres		_	Dwelling Units	nits
Land Use Category	City	County	Total	City	County	Total
Low Residential	281.5	73.6	355.1	006	298	1198
Low Medium Residential	117.7	69.5	187.2	618	401	6101
Medium Residential	41.7	136.5	178.2	394	1362	1756
Medium-High Residential	10.0	20.6	30.6	203	594	797
High Residential	19.7	16.5	36.2	150	345	495
Business Park	36.0	8.08	8.6.8			
Hotel	9.9		9.9			
Community Commercial	13.0	13.6	56.6			
Sports Complex	5.0		9.0			
Health Care		7.2	7.2			
School/Local Parks	28.9	5.5	44.4			
Community Parks	20.0		20.0			
Championship Golf Course	141.6	3.4	145.0		_	
Executive Golf Course	16.0	97.3	113.3			
Natural Open Space	304.6	301.2	8.509			
Regional Park	316.3	8.2	324.5			
Reserve	715.0	1045.0	1220.0			
Roads	70.4	47.1	117.5			
Totals	1604.0	1906.0	3510.0	2265	3000	5265

Talega Valley Associates has submitted a Specific Plan Amendment to the City that has the following designations.

E	RESIDENTIAL LAND USES	ND USE	S	İ	
		¥	Acres	Dwe	Dwelling Units
Residential Designation	Density (Units/Grs. Ac.)	City	Sphere of Influence	City	Sphere of Influence
L Residential Low	0 - 4.5 du/ac	227.0	11.4	1115	14
I.M. Residential Low Medium	4.5 - 7 du/ac	382.8	138.3	1162	619
M - Residential Medium	7 - 15 du/ac	282	119.5	239	1194
MH Residential Medium High	15 -24 dwac	29.4	57.5	353	813
	Subtotals	667.4	667.4 326.7	3265	2700
	Fotals	56	994.1	4,6	4,965

Source: Proposed Specific Plan Amendment (SPA 98-05)

PUBLIC FACILITIES AND OPEN SPACE LAND USE SUMMARY	OPEN	SPACE LAND USE	SUMMARY
Land Use Designations	City	Sphere of Influence	Totals
Public Facilities			
ES - Elementary School	18.3	0.0	18.3
P - Public and Private Parks ¹	20.1	15.2	35.3
RP - Regional Park	5.5	8.2	13.7
Subtotal	43.9	23.4	67.3
Орен Ѕрасе			
GC - Golf Course	178.4	44.5	222.9
OS - Open Space ²	423.3	383.5	8.908
()S - Talega Reserve	175.0	0.766	1172.0
Subtotal	776.7	1425.0	2201.7
Total	820.6	1448.4	2269.0
(1) Approximately 24 acres will be designated for public parks. The remaining acreage will be used	cionated for	wiblic parks. The remaining a	acreage will be used

Approximately 24 acres will be designated for public parks. The remaining acreage will be used for public parks. The remaining acreage will be used for public parks recreational facilities.

Approximately 29 acres of this golf course and approximately 30 0 acres of the open space are designated within the Village Center.

The Talaga Reserve is not in the CFD Source. Specific Plan Amendment

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considered in SP 98-05. The total units anticipated by the master developer is 3,741 as opposed to The master developer proposes to develop fewer units that have been approved or are currently being 4,965 per SP 98-05 and the 5,265 units that currently exist.

Associates has filed annexation petitions with LAFCO for the annexation of the Business Park area, developer (Talega Associates) will file with the Orange County Local Agency Formation ("LAFCO") a perition for the annexation of the Sphere-of-Influence area to the City. Talega portion of the golf course and most residential areas within Village 2. As of January 18, 2001, As part of the Development Agreement between the City and Talega Associates, the master fourteen annexations totaling 232.9 acres have been completed.

Joint Planning Authority ("Authority"). This Authority is authorized to exercise the police powers The City and County have entered into a joint exercise of powers agreement establishing the Talega of the City and County to regulate the planning and development of the Sphere-of-Influence area.

TALEGA RESERVE

The Rancho Mission Viejo Land Conservancy has been established as a non-profit corporation with the express purpose of preserving the land in the reserve for educational, recreation, scenic, and conservation purposes. These lands are not within the CFD boundaries and are included in this Approximately 1,220 acres of open space within the Talega Project exists as the Talega Reserve. report for descriptive/informational purposes only.

THREE-YEAR SALES HISTORY

A number of transactions occurred between Talega Associates LLC and various "merchant builders" in December 1998. These are detailed below.

TRANSACTION NO. 1

NWC Avenida Talega and Avenida Vista Hermosa, San Clemente. Location:

1-D/E, 1-F/G, Phase I Planning Areas: Nos. 15756 and 13686 Fentative Tract:

Purchase and Sale Agreement Date:

December 30, 1998

January 6, 1999 Recorded Date:

19990008003 Document No.: Talega Associates LLC Seller:

Catellus Residential Group, Inc. Buyer:

5000 sf (68) and 5500 sf (80) Size: 80 single family residence lots; 68 single family lots. \$18,875,800 Purchase Price: No. of Lots:

Blue-top condition Condition of Property:

\$106,582 - 5,000 sf lots \$145,420 - 5,500 sf lots Price Per Lot:

Price Per Finished Lot:

\$140,502 - 5,000 sf lots \$179,391 - 5,500 sf lots

Seller: Talega Associates LLC	Buyer: Lennar Homes of California, Inc.	Size: 8.2 acre site; 12.8 du/ac	No. of Lots: 105 single family attached units	Purchase Price: \$4,600,000	Condition of Property: Mass-graded	Price Per Lot: \$43,810	Price Per Finished Lot: \$79,261	TRANSACTION NO. 4	Location: NWC Avenida Pico and Calle Alicante, San Clemente.	Planning Area: 2-F, Phase II	Tentative Tract: No. 13878	**	· i	Recorded Date: December 28, 1998 Document No.: 1998089344	Seller: Talega Associates L.C.	Виуст: Lennar Homes of California, Inc.	Size: 3,150 sf lots	No. of Lots: 86 single family attached units	Purchase Price: \$6,829,412	Condition of Property: Mass-graded	Price Per Lot: \$79,412	Price Per Finished Lot: \$111,930
TRANSACTION NO. 2	Location: NEC Alicante and Corte Tabarco, San Clemente	Planning Arca: 2-G, Phase II	Tract: No. 15798	Purchase and Sale Agreement Date: December 21, 1998				Buyer: Shea Homes Limited Partnership	Average Lot Size: 4,250 sf	No. of Lots: 140 single family residential tots	Purchase Price: \$14,154,710	Condition of Property: Mass-graded	Price Per 1.01: \$101,105	Price Per Finished Lot: \$133,320	TRANSAÇTION NO. 3	Location: NWC Avenida Pico and Camino La Pedriza, San Clemente	Planning Area: 2-1, Phase II	Tract: No. 13894	Purchase and Salc Agreement Date: December 23, 1998			

TRANSACTION NO. 5	
Location:	N/S Avenida Pico; W/O Camino La Pedriza, San Clemente.
Planning Area:	2-H, Phase II

Planning Area: 2-H, Phase II

Tract: No. 15799

Purchase and Sale

Agreement Date: December 11, 1998

Recorded Date: December 18, 1998

Document No.: 19980873741
Seller: Talega Associates LLC

Buyer: William Lyon Homes, Inc.

Size: 2,700 sf lots
No. of Lots: 120 single family detached residential units

Purchase Price: \$8,200,000

Condition of Property: Mass-graded

Price Per Lot: \$68,333
Price Per Finished Lot: \$104,304

TRANSACTION NO. 6

Location: NWC Camino La Pedriza and Calle Altea, San Clemente.

Planning Arcas: 1-H/I, 1-J, Phase I

Tentative Tract: Nos. 13683 and 13684

Purchase and Sale Agreement Date: December 21, 1998

Recorded Date: December 24, 1998

Document No.: 19980895272

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Seller: Talega Associates LLC

Standard Pacific Corporation

108 single family 4,950 sf lots; 47 single family 6,000 sf lots.

Buyer:

Size:

108 single family detached residential units" StanPac 108" and 47 single family detached residences "StanPac 47".

No. of Lots:

Idinity detaction residences

Purchase Price: \$20,411,000

Condition of Property: Blue-top condition
Price Per Lot: \$120,568 - 4,950 sf lots
\$157,225 - 6,000 sf lots

Price Per Finished Lot: \$154,284 - 4,950 sf lots \$194,272 - 6,000 sf lots

TRANSACTION NO. 7

Location: S/S of Camino La Padriza, east of Welcome Center.

Planning Areas: 2-B

Tentative Tract: No. 15868

Purchase and Sale
Agreement Date: June 24, 1999

Recorded Date: December 30, 1999

Document No.: 9986064RF

Seller: Talega Associates LLC

Buyer: Woodbridge Development, Inc.

Size:

5.2 acres

No. of Lots:

4

Lot Size: 11,200 sf lots

Purchase Price: \$4,000,000

Condition of Property:	Houses under construction	Tentative Tract:	No. 13898
Price Per Lot:	\$285,715	Purchase and Sale	
Price Per Finished Lot: \$346.291	8346 291	Agreement Date:	June 27, 2000
		Recorded Date:	August 8, 2000
TRANSACTION NO. 8	90	Document No.:	N/A
Location:	Calle Pacifica and Camino L.a Pedriza (across street from 2-B above).	Seller:	Talega Associates LLC
Planning Areas:	2-V	Buyer:	BRE Properties, Inc.
Tentative Tract:	No. 13880	Size:	10.0 acres
Purchase and Sale	December 23, 1999	No. of Lots:	252 apartments (maximum density)
Recorded Date:	July 5, 2000	Purchase Price:	\$11,400,000
Document No.	1312 P. 1312 P	Condition of Property:	Mass-graded
::00:00	Niccio	Price Per Lot:	\$45,238
Seller:	Talega Associates LLC	D.: 1 D.: 17 (1.0)	***************************************
Buyer:	Standard Pacific Corp.	rrice ref rimsnea Lot.	N/N
Size:	15.5 net acres	TRANSACTION NO. 10	0
No. of Lots:	61 (conditioned as per Purchase and Sale Agreement)	Location:	N/E side of loop of Camino La Pedriza
Lot Size:	6,300 sf lots	Planning Areas:	2-M
Purchase Price:	\$10,000,000	Tentative Tract:	No. 15953
Condition of Property:	Blue-top	Purchase and Sale	73 1000
Price Per Lot:	\$163,934	Agreement Date:	December 22, 1999
Price Per Finished Lot:	\$346,759	Recorded Date:	May 2, 2000
		M	1716100001

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Catellus Residential Group, Inc.

Seller: Buyer:

NEC Camino La Padriza and Christiantos Road

TRANSACTION NO. 9

2.0

Planning Areas:

Location:

35

Size

14.4 net acres

Talega Associates LLC

19980873741

Document No.:

85 (conditioned as per Purchase and Sale Agreement)

3,500 sf lots \$7,336,310 Purchase Price: No. of Lots: Lot Size:

Blue-top \$86,310 Condition of Property: Price Per Lot:

\$134,691 Price Per Finished Lot:

TRANSACTION NO. 11

At junction of Puerta Del Sol and Calle Alicante. Location:

15917 Planning Areas: Lot 4 of Tract No. 15917 Lot/Tract:

May 4, 2000 Purchase and Sale Agreement Date: December 19, 2000 Recorded Date:

20000706408 Document No.:

Talega Associates LLC Seller:

Pacific Packaging Machinery Co., Inc. Buyer:

2.6 gross acres; 1.88 net acre Size:

No. of Lots:

\$790,000 Purchase Price: Mass-graded Condition of Property:

\$9.68 Price Per SF:

TRANSACTION NO. 12

S/S of Camino La Padriza, north of Avenida Pico Location:

5-C Planning Areas: No. 15921 Tentative Tract:

July 9, 1999 Purchase and Sale Agreement Date:

February 8, 2000 Recorded Date:

9976065RF Document No.: Talega Associates LLC

Seller:

Talega Village LLC 49.8 net acres Buyer:

Size:

295 No. of Lots: Varies Lot Size: \$27,000,000 Purchase Price:

Mass-graded \$91,525 Price Per Lot:

Condition of Property:

Price Per Finished Lot: N/A

TRANSACTION NO. 13

Between Avenida Vista Hermosa and Calle Alicante Location:

Business Park Planning Areas: Lot Nos. 1 and 2 of Tract Nos. 14227 and 13917 Lot/Tract:

Purchase and Sale Agreement Date:

March 22, 2000

December 12, 2000 Recorded Date:

Document No.:	N/A	TRANSACTION NO. 15	8
Seller:	Talega Associates LLC	Location:	E/S Camino de la Pedriza @ Corte Mar Vista
Buyer:	Burke-Talega LJ.C	Planning Areas:	2-Р
Size:	13.78 net acres	Tract:	Lots ! through 14 of Tract No. 159541
No. of Lots:	3	Recorded Date:	July 21, 2000
Purchase Price:	\$5,702,440	Document No.:	2000383118
Condition of Property:	Mass-graded	Seller:	Talega Associates LLC
Price Per SF:	\$9.50	Buyer:	Catellus Realty Group
Price Per Finished Lot:	N/A	Size:	8.0 net acres
		No. of Lots:	47 (3,500 sflots)
TRANSACTION NO. 14	7:	Purchase Price:	\$4,885,000
Location:	S/S of Puerto Del Sol at Avenida Vista Hermosa	Condition of Property:	Mass-graded
Planning Areas:	Business Park	Price Per Lot:	\$103.936
Tentative Tract:	Lot 2 of Tract No. 15917 and Lots 3, 4 and C of Tract No. 14227	Price Per Finished Lot:	\$134.449
Purchase and Sale Agreement Date:	April 11, 2000		
D	Soutonihar 28 2000	TRANSACTION NO. 16	9i
Recorded Date:	September 26, 2000	Location:	N/S of Camino de la Pedriza; W/S Calle Vista del Sol
Document No.:	2000516212	Planning Areas:	2-S. Village 2
Seller:	Talega Associates LLC	Lot/Tract:	ors 12 to 46 of TTM 15955 and Lots 24-33, 59-75 of TTM 14224
Buyer	Taico Properties, Inc.	Purchase Salo!	
Size:	4.26 acres	Agreement Date:	October 30, 2000
No. of Lots:	4	Recorded Date:	December 20, 2000
Purchase Price:	\$1,699,775	Document No.:	2000691936
Condition of Property:	Mass-graded	Seller:	Talega Valley Associates L.I.C
Price Per SF:	\$ 9.00 39		40

Buyer:	BHC Residential LLC	TRANSACTION NO. 18	∞ i
Size:	16.5 acres	Location:	N/S of Camino de la Pedriza; N/O Via Amor
No. of Lots:	58 (55' x 100' typical lot size)	Planning Areas:	2-Q, Village 2
Purchase Price: Condition of Property:	\$8,500,000 Mass-graded	Lot/Tract:	Lots 48-114, C to G, I to O, R to T of TTM 15954; Lots 1 -40, B to D, and F to H of TTM 14226
Price Per Lot:	\$146,551	Purchase Sale/ Agreement Date:	November 15, 2000
Price Per Finished Lot:	\$177,647	Recorded Date:	January 9, 2001
TBANSACTION NO. 17	<u> </u>	Document No.:	N/A
	NIC of Comming de la Dadrigo, E/O Calla Vieta del Col	Seller:	Talega Valley Associates LLC
L'OCAHORI;	IVIS OF CATHELLO DE LA FEUTIZA, E/O CATIC Y ISTA DEL SOL	Buyer:	Standard Pacific Corporation
Flanning Areas:	z-K, vinage z	Size:	24.3 acres
Lot/Tract:	Lots 1 to 16, C, D, I and portion of H of TTM 15955; Lots 1-23, 34, 36-58 C-E, O-S and portions of Lots B, I, L and N of TTM 14224.	No. of Lots:	107 (5000 sf typical lot size)
Purchase Sale/	Outshar 20 2000	Purchase Price:	\$13,496,000
Agreement Date.	October 30, 2000	Condition of Property:	Mass-graded
Recorded Date:	December 26, 2000	Price Per Lot:	\$126,131
Document No.:	N/A	Price Per Finished Lot:	\$160,143
Scller:	Talega Valley Associates LLC		
Buyer:	William Lyon Homes, Inc.	TRANSACTION NO. 19	5
Size:	21.6 acres	Location:	S/S of Puerta del Sol; E/O Avenida Vista Hermosa
No. of Lots:	61 (72' x 105' typical lot size)	Planning Areas:	Business Park - 1
Purchase Price:	\$13,850,000	Lot/Tract:	Lot 5 of Tract 14227
Condition of Property:	Mass-graded	Purchase Sale/ Agreement Date:	Sentember 8, 2000
Price Per Lot:	\$219,841	Recorded Date:	December 27, 2000
Price Per Finished Lot:	\$253,880	Document No.:	N/A

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Talega Valley Associates LLC

Makena Propertics

Buyer:

Size

Seller:

5.37 acres

Mass-graded \$2,311,700

Condition of Property:

Purchase Price:

No. of Lots:

\$10.25

Price/SF:

TRANSACTION NO. 20

his section will present a brief description of the Talega project as well as Phases 1, 2A, and 2B	sold to merchant builders).
This section	(sold to me

Location:	The Talega Project is located in the southern portion of Orange County, north of Avenida Pico and east of Avenida La Pata. The entire Talega Project contains 3,510 acres, of which 1,906 acres are within the unincorporated area
	of Orange County, and the balance of 1,604 acres are within the jurisdiction of the City of San Clemente. Please refer to the facing man

Addenda of this report.
Please refer to the Ac
Property Taxes:

S/S of Camino La Pedriza, W/S Calle Vista del Sol

Lot 3 of Tract 15917 Business Park - 2A

Planning Areas:

Location

Lot/Tract:

Description: Size/Shape: Zoning:

The subject project is under two specific plans. The first is the Talega Specific Plan, which was adopted by the City of San Clemente in August of 1988. It was amended in July of 1992. This is the document that is vested by the Development Agreement executed in 1998. There is a total of 2,265 units
as well as a golf course, business uses, and open spaces. A specific plan amendment was filed (SPA 98-05) in September of 1998 which establishes a
100-acre minimum for business park, allows for 56 acres of additional
development area, and would allow for the golf course to be credited towards
open space. As discussed earlier in this report, a specific plan amendment is
pending.

Falega Valley Associates LLC

0.93 acres

Ewing

Buyer:

Size:

Seller:

September 8, 2000

Recorded Date: Document No.:

٧/X

August, 2000

Agreement Date:

Purchase Sale/

the Feature Plan, which was submitted to eliminate health facilities land use designation and expand two medium-high density residential areas. The golf the Orange County Planning Commission approved the fifth amendment to The Rolling Hills Feature Plan was approved in September of 1989 by the Orange County Board of Supervisors. This plan allows for 2,700 residential units, a golf course, and commercial and business park uses. In July 2000, course was redesigned for drainage purposes.

As mentioned above, there are two specific plans that have been approved. In addition there is the following.

Entitlements:

 Development agreements executed between the City of San Clemente, the County of Orange, and Talega Associates, LLC.

#

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Mass-graded

Condition of Property:

\$10.12

Price/SF:

\$410,000

Purchase Price:

No. of Lots:

- A number of tract maps that been approved. A list of these is located in the Addenda for the reader's review.
- An area plan (No. 98-82) on 713 acres approved by the City of San Clemente.

Topography:

The Talega Project is a combination of valleys, ridges, hills, and graded areas. Grading and development have occurred in the southern portions of the site (Phases I and 2). Elevations on site range from 910 feet in the northern portion of portion to 300 feet in the western portion. Much of the northern portion of the site is occupied by a large ridgeline of which the highest elevations occur offsite. South of this ridge, in the central portion of the site, is Talega's long central valley, which like the ridgeline, trends in a southwest to northeast direction. At the floor of the valley is the largest drainage course on site, Segunda Deschecha Canada. A second major ridgeline occurs on the opposite side of the central valley. This ridge extends in a southwest to northeasterly direction and elevations exceed 850 feet. This ridgeline terminates at its southwestern end of a large hill referred to as Nob Hill. South of this ridgeline is another internal valley, trending in the same direction.

West of this series of ridges and valleys, the terrain is hilly, but less steep. Several landslides exist in the western portion. Toward the western boundary, elevations increase and the terrain ascends toward the primary ridgeline to the west on Forester Ranch.

The topography in the eastern portion of the property is different from the rest of Talega. The eastern third is divided from the balance of Talega by a major watershed boundary where the two ridgelines meet. To the west of this watershed boundary, ridges and valleys are generally steeper and trend in the opposite direction. These steep canyons and smaller drainage courses, which lead to Cristianitos Creek, are the site of oak woodland-mixed chaparral-coastal sagebrush.

Reference is made to an EIR* that has detailed the soils and geology of the

The report has addressed several different areas of the project and has classified them as follows.

Santiago Formation - This area is located in the northeasterly half of the property and the soils are classified as Marine sandstone.

Topanga Formation - This is located in the north central and the soils are classified as Marine sandstone.

³ Talega Valley Environmental Impact Report prepared by EDAW, Inc. August 26, 1998.

San Onofre Breccia - The soils are classiffed as Marine angular breccia which includes property consisting of sandy to clay light soils. Boulders as large as eight feet were found along a buried oil pipeline. This is located in the central portion of the property.

Monterey Formation - Soils are Marine siltstone and shale. Moderate to high expansion potential.

Capistrano Fornation - These soils are Marine siltstone, clay and sandy siltstone with local fine to medium sandstone.

Ancient Landslide Debris - Distributed throughout the property in sizes ranging in area from .25 acre to 70 acres, and in depth from 5 to 10 feet up to as much as one 100 feet.

Recent Landslide Debris - Blocks of underlying bedrock materials, plus soils materials which are within the area since the movement began.

Alluvium - This is located in the valley bottoms and consists of several hundred acres. Soils are sandy silt to silty clay.

Colluvium and Slopewash - These soils are sitty clay, sandy clay in the western half of the property. Materials are in depths of one to five feet and liquification can occur when saturated.

Artificial Fill - This is placed without the benefit of engineering and was typically placed for retention of water stock and support for roadways.

Earthquake Faults:

The Cristianitos Fault crosses the subject property. According to the original EIR another fault, the Forster Fault, diverges from the Cristianitos Fault within the property in the southwestern portion of the property, extending westerly, then northerly, to rejoin the Cristianitos Fault north of the subject property.

The EIR summarizes this as follows.

"Thus, the Cristianitos Fault and related faults which branch from it can be considered not active and are not considered capable faults under N.R.C. (Nuclear Regulator Commission⁵) guidelines. They may be potentially active under criteria set forth in Alquist-Priolo special studies zones. No requirement for trenching or considerations for structural setbacks are necessary under these criteria. The need for structural setback or remedial grading along

San Onofre Nuclear Plant is located 6+ miles southwest of the subject.

and must be considered during development of the property on a site specific basis. This also applies to numerous other minor faults he fault zone due to the presence of a weak rock is a separate matter which are present on the property."

Environmental:

County of Orange and the City of San Clemente. These would include the The project as envisioned by the current Talega Business Plan would involve receiving approvals from several government agencies in addition to the following:

- The project had previously received an agreement (No. V-88-663) to once the requested 404 Permit is issued, the 1603 Agreement will also be California Department of Fish and Game. This agency would require a permit for alterations to the Upper Segunda Deshecha Canada and permit certain alterations to wetlands and riparian areas associated with the previously mentioned waterways. This agreement has been extended and another extension request has been submitted. It is anticipated that iributary to Cristianitos Creek. This is referred to as a 1603 Agreement. extended with revisions that are consistent with the 404 Permit.
- U.S. Army Corps of Engineers 404 Permit. A 404 Permit is required for development of a portion of the property (Villages 3', 4, 5 and 6). In site drainage to allow construction of the golf course in Village II. Due to the number of acres of the streambed to be altered in the remainder of the project, the Corps is requiring a new individual project permit. Talega March 1998, a new Nationwide Permit was issued for a portion of the on-Associates made application to the corps for this 404 Permit in July 1998.

The Corps distributed the 404 Permit application for public review and Segunda Deshecha drainage. As a result, Talega Associates has revised comment in February and November 2000. The Corps focused al redesign necessitates the relocation of required storm run off detention facilities, the elimination of approximately 46 homes, the climination of 10 acres of Business Park in the Village Center and the construction of hree bridges. The Corps has provided a "draft" 404 Permit that will allow the project to proceed subject to conditions related to the preservation and protection of the Segunda Deshecha drainage, and alternative project designs that would avoid additional alkali wetlands areas in the vicinity of Avenida Vista Hermosa, the Village Center, Village III, and in areas where the golf course is adjacent to the upper the design of the golf course, Village III and portions of the Village compensation for the allowed impacts to the waters of the United States. Center to eliminate filling of the Segunda Deshecha drainage.

Amendment prepared by Bonterra Consulting, the development area Only a small percentage of the 180 acres was actually removed during the U.S. Department of Fish and Wildlife is involved in both the coastal sagebrush and coastal California gnatcatcher. The coastal California development to a business park. According to the Initial Study/Addendum EIR for the Talega Valley Development Feature Plan within the footprint of the EIR would have resulted in the loss of approximately 180 acres of coastal sage scrub if the entire Talega Valley Development, as depicted in the EIR for the project, had been graded. early 1990's. If the full 180 acres was actually removed from the project, there would have been adequate mitigation for impacts to the habitat by the dedication of 383 acres of coastal sage scrub within the 1,180 acre gnateatcher, not yet listed as threatened, was observed on site. Actually, three pairs were observed on the portions of the site that were designated Rancho Mission Viejo Land Conservancy. <u>j</u>

jointly administered by the City of San Clemente and the County of Orange. The NCCP is a program to ensure the long-term survival of the National Community Conservation Plan (NCCP) is a program that will be gnateatcher and other sensitive animal species.

2172 was signed into law September 1991. It is referred to as the NCCP Act and was designed in recognition of the fact that individual species Act (AFESA) is costly and historically ineffective as a means of County NCCP. Talega Associates joined the NCCP landowners in September of 1997 and will contribute monies to the Trust to assist in the funding in planning and management of the Southern Subregion NCCP protection and perpetuation of natural wildlife diversity while allowing The Talega Project is within the Southern Subregion of the Orange reserve. The purpose of the NCCP is to provide regional or area wide compatible and appropriate development and growth. Assembly Bill No. protection under the Endangered Species Act and the Federal Endangered

a multi-habitat hased NCCP/Habitat Conservation program for the Southern Subregion to ensure the long term survival of the gnateatcher Consequently, the County of Orange in conjunction with state and federal agencies, local jurisdictions, utility companies, the Transportation Corridor Agencies, and private landowners is in the process of preparing and other coastal sage scrub dependent plant and animal species.

- an interim phase and an implementation phase. The interim phase is defined as the period between the March 25,1993 listing date and the The Southern Subregion NCCP program will be completed in two phases approval of the Southern Subregion NCCP program by the United States Fish and Wildlife Service. During the interim period the USFWS may

Planning Area 3-G can be developed absent a 404 Permit.

approve incidental habitat loss associated with development, provided the loss does not exceed the 5% cumulative maximum established for the Southern Subregion.

The implementation phase of the NCCP will begin when the Southern Subregion NCCP program is completed and approved. The USFWS will monitor the plan. The design of the Southern Subregion is currently being developed. Within the Southern Subregion there are approximately 92 000 acres.

The subject project is within the Southern Subregion and the initial phases of the project will be processed during the interim phase of the NCCP. Talega Associates has submitted an Interim Habitat Loss Mitigation Plan and Findings for a portion of the property. To date, the U.S. Fish & Wildlife has granted three "4d" Permits including removal of the only occupied coastal sage scrub on Talega.

A summary of the environmental issues is listed as follows:

- The 3,500-acre Talega Development Project obtained its original U.S. Army Corps of Engineers (Corps) Section 404 Permit for impacts to waters of the U.S. and California Department of Fish and Game (CDFG) Section 1603 Streambed Alteration Agreement in the mid-1980's.
- Over \$1 million was expended installing two wetlands mitigation sites pursuant to the original Permit and Agreement. In total, 8.80 acres in two wetland sites have been in place for over five years.
- Corps staff issued a Section 404 permit for impacts to the blueline stream within the Phase I grading area last year after Talega Associates committed to reestablishing the drainage through the first leg of the golf course. A draft permit for Villages III, IV, V and VI is pending.
- Talega Associates, LLC is currently working with the U.S. Fish and Wildlife Service (USFWS) and CDFG to process a second Section 4(d) permit for additional take of coastal sage scrub within near term planning areas. The Plan proposes a restoration program for the establishment of coastal sage scrub habitat within 56.42 acres of open space on the project site. Talega Associates, LLC has contributed \$250,000 and pay an annual homeowner's assessment of \$25 per residential unit.
- Approximately 66.42 acres of coastal sage scrub remain within the Talega project.
- Over two-thirds of the Project is open space including 1,957 acres of natural open space that will be contributed to the contemplated South

Orange County Natural Communities Conservation Plan (ANCCP)

Transportation:

Foothill Transportation Corridor ATCA is an agency that is responsible for the planning, design, and implementation of the Foothill Corridor, in addition to other toll roads in the County of Orange. The Foothill Corridor is 2.7.7-mile toll road extending from Tustin (and the Eastern Corridor) to Interstate 5 southwest of the subject property. While no final alignment has been approved, the preference by the property owners, City, and other agencies appears to be Fareast Alignment (formerly "CP"), which has the future toll road extending along the eastern boundary of the subject property with an interchange at Avenida Pico. Other alignments would have an adverse impact on the subject property including bisecting developments under construction. An Environmental Impact Report is being prepared on the project. The toll road is anticipated to begin construction in 2005 with completion in 2007. The roadway would be financed by the sale of toll revenue bonds. Fees are based on type of use.

Growth Policy-San Clemente:

The Residential Development Evaluation Board (ARDEB) was a process for a growth mechanism adopted by the City. The City's Development Code (Chapter 15.44) established the standards associated with the program. As a result, the City allocates building permits for 500 units a year. The decision for award is based on a point system for each project.

Miscellaneous:

The San Onofre Nuclear Generating Station ("SONGS") is approximately 6 miles from the project. Southern California Edison ("SCE") has operated the SONGS since January 1968. This plant generates electricity for residential and commercial customers. SCE has primary and back-up safety features if an accident occurs. SCE was required to demonstrate to the United States Regulatory Commission (prior to SCE operating the plant) that SONGS did not pose an undue risk to public health and safety.

The TRW Capistrano Test Site is located approximately I mile from the project. This test site conducts tests of lasers, fossil fuel technologies, and space communication systems.

The United States Marine Corps, Camp Pendleton ("Camp Pendleton") is located southeast of the project. This is an active year round training facility that utilizes aircraft, explosives, and troops in its training operations.

PLANNING AREA DESCRIPTIONS - MERCHANT BUILDERS

Planning Area 1-D/E is located in Phase 1. It is a 14.9-acre site that is being developed to 68 units with a typical lot size of 5,000 st. The planning area has been designated as "Terra Linda" the sales prices for the development ranging from \$383,019 to \$639,990. The site was acquired by the Catellus Residential Group on January 6, 1999. The project is virtually built-out with completed homes (67 recorded transactions), with one homes remaining.

Planning Area 1-J is located in Phase I. It is an 11.9-acre site that is being developed to 47 units cach on a typical sized 6,300 sf lot. This planning area has been designated as "Pacifica" with sales prices ranging from \$569,750to \$917,000. The planning area was acquired by Standard Pacific in December 1998. The project has some completed homes (39 recorded transactions) and 4 homes owned by the builder, which represent the model home complex. In addition, there are 2 finished base

Planning Area 1-F/G is also located in Phase I and consists of 18.1 acres. This site is being developed to 80 single family units each on a typical sized 5,500 sf lot. The planning area is designated as "San Rafael" with sales prices ranging in price from \$449,000 to \$879,990. Catellus Residential Group purchased the site in December 1998. The project has completed homes (76 recorded transactions), 4 completed homes owned by the builder.

Planning Area I-II/I is located in Phase I and consists of 23.7 acres. This planning area has been designated as "Monterey" with 108 single family detached units on 5,000 sf lots. The sales price ranges from \$397,000to \$751,600. Standard Pacific purchased the site in December 1998. The project has been sold out (108 recorded transactions).

Planning Area 2-B is a high-end residential development referred to as "Vizcaya". This 14-lot development is located in Phase 2 with all 14 houses that are priced from \$900,000 to \$1,350,050. Thirteen homes have been recorded with one house in escrow, still owned by the merchant builder as of the date of value.

Planning Area 2-C is an Age Restricted housing development by Standard Pacific Housing. There are three different residential products being developed within this planning area. "Sandbridge" consists of 97 lots with three completed homes (model complex), 52 homes under construction, 12 finished lots, and 30 blue top lots. "Seagarden" is a 41 lot development with three homes complete(model complex), 35 homes under construction and 3 finished lots. "Waterleaf" is a 75 lots development with three homes complete (model complex), 47 unfinished homes, and 25 finished lots. In addition there there are 70 lots which are mass graded and no product line has been established as of yet.

Planning Area 2-F is a 12.5-acre site located in Phase II-A. This site is developed to 86 attached homes ranging in price from \$273,220 to \$496,830 The project is referred to as "Carmel @ Talega". This site was acquired by Lennar Homes in December 1998. Of the total number of homes in the tract, 68 have been recorded. There are 18 finished homes, which include the model complex of 4 homes, 18 homes owned by the builder.

Planning Area 2-G is a 24.1-acre site in Phase II-A. This site of 140 single family detached homes is designated as "Seaside @ Talega" on typical 4,000 sf tots. The sales pricing is from \$348,080 to \$\$12,651. The site was purchased by Shea Homes in December 1998. There is a total of 140 lots of which 100 homes have been recorded, 14 completed homes are owned by the builder (3 of which are models), 26 homes are under construction.

Planning Area 2-II is also located in Phase II-A. This development, known as "Solana", is being developed to 120 attached units with base prices ranging from \$247,779 to \$443,490. The site consists of 16.1 acres and was acquired by William Lyon Homes in December 1998. There is a total of 120 lots of which 108 homes have been recorded. There are 12 completed homes owned by the builder of which 1 is a model..

Planning Area 2-I is an 8.2-acre site designated for 105 townhomes in Phase II-A and was acquired by Lennar Homes in December, 1998. This site is designated as "Trindad" and proposes for sale an attached product ranging in price from \$191,288 to \$304,000. There are 105 units of which 91 have been recorded. The completed homes owned by the builder total 8, of which 3 are models, 6homes are under construction.

Planning Area 2-M was purchased by Catellus (BHC acquired by Catellus) on May 2, 2000. The site consists of 14.4 acres and is being mass graded for 85 units with the prices ranging from \$369,990 to \$481,210 on 3,500 sf lots. There are 12 recorded transactions and 18 completed homes are completed,28 are under construction 27 are finished lots.

Planuing Area 2-P was also acquired by Catellus (BHC) on July 21, 2000. The site consists of 8 acres and is being mass graded for 47 units with a similar product type as Planning Area 2-M. All of the lots are in a blue top condition.

Planning Area 2-V was recently acquired by Standard Pacific Housing. The produc "Pacifica Summit" ranging in size from 3,542 to 4,188 sf and are priced from \$551,975 to \$849,250. This planning area is under construction on 59 of the 61 lots on 15.5 acres with a typical tot size of 6,300 sf. Fifty five homes are under contract and 2 are finished lots (parking lots).

Planning Area 2-Q was acquired by Standard Pacific Corporation on January 9, 2001. The planning area consists of 24.3 acres of land on which there is 107 lots. The proposed product is anticipated to be single family homes between 2,406 to 2,839 sf and range in price from \$457,000 to \$490,000. Four homes under construction and 103 finished lots.

Planning Area 2-R was acquired by Lyon Homes, Inc. on December 26, 2000. This planning area consists of 21.6 acres on which there is a tentative map approval for 63⁸ lots. Typical lot size is 7,560 sf. The proposed product is to range in size from 4,000 to 4,500 sf and prices expected to be from \$634,990 to \$714,990. The site is mass graded.

Planulug Area 2-S was acquired by Catellus (BHC) on December 20, 2000. The planning area consists of 16.5 acres on which there is approval for 58 lots. The proposed product is a single family development ranging in price from \$550,000 to \$650,000. The lots are considered finished.

Reduced to 61 lots.

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Business Park Lands: There have been 5 transactions by five separate buyers. These sales occurred from September through December 2000 with the sites ranging in size from .93 to 13.78 acres. The price per square foot ranged from \$9.00 to \$10.25. A total of 26.22 acres was acquired through these 5 transactions. The sites are level and graded.

HIGHEST AND BEST USE ANALYSIS

The highest and best use analysis is a basic concept in real estate valuation represents the underlying premise (i.e. land use) upon which the estimate of value is based. In this report the highest and best use is defined as

That reasonable and probable use that supports the highest present value, as defined, as of the effective date of the appraisal. Alternatively, that use, from among reasonably probable and logal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value."

Secondly, the existing improvements (if any) are compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a Proper application of this analysis requires the subject property to first be considered as if vacant in order to identify the "ideal" improvements in terms of use, size and timing of development. more productive or ideal use

AS VACANT

possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible use, or those uses which generate a positive return on investment; and the maximally productive use, or those probable permissible uses which combine to give the owner of In the following analysis I have considered the site's probable use, or those uses which are physically the land the highest net return on value in the foreseeable future.

Physically Possible Uses

southern portion of Orange County and is within the jurisdictions of both the City of San Clemente The subject property is a large, irregular parcel, which contains 3,510 acres. The site is located in the and the County of Orange. The majority of the area consists of valleys, ridges, and grasslands as

⁹Real Estate Appraisal Terminology, Revised Edition, 1981

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well as portions of the site being graded. Elevations on the site range from 210 to 910 feet. A portion of the property (referred to as Phases I, II-A and II-B) has been developed to residential housing

several smaller tributary drainage courses crossing the primary drainage course. A slope analysis that was prepared by T & B Consultants indicate that approximately 289 acres of the site are relatively flat containing less than 15% slope gradient. Approximately 105 acres of the site contain slopes between 15 and 25%, and 258 acres contain slopes ranging between 25 and 50%. Fifty-two The Segunda Deshecha drainage crosses the site in a northeasterly to southwesterly direction, with acres have slopes in excess of 50%.

The soils have been described in this appraisal report and vary throughout the site.

The Final EIR, as well as the addendums (first, second and third) address the mitigation measures for development of the property

development. The addendums to the EIR conclude that the recommendations that were made in the The Final Environmental Impact Report (No.482) addressed the impacts associated with slope stability, problematic soil conditions, seismicity, groundwater, and rippability of the soils for Final EJR, if adopted, would reduce the impacts to less than significant were still applicable. These mitigation measures are summarized below.

- Development of the site shall conform to general recommendations presented in the geotechnical studies (Irvine Soils Engineering, Inc. 1980, 1981 and 1983).
- Specified methods of mitigating potential hazards related to slope stability, problematic soils conditions, seismicity, groundwater, and rippability shall be assessed and recommended by a qualified engineering geologist.
- Prior to approval of a Site Development Permit, the developer shall submit a conceptual grading plan for approval by the County Environmental Management Agency (EMA).
- Prior to recordation of the final tract map, rough grading plans will be approved and prior to grading permits issuance, a precise grading plan will be approved.

- Rough grading plans shall include an erosion, siltation, and dust control plan to be approved by the County EMA.
- All slopes shall be designed at 2-horizontal to 1-vertical or flatter except in areas where specific geotechnical studies determine that steeper slopes are feasible.
- Prior to approval of any grading permit, plans shall be submitted by the applicant, which shall include a description of haul routes, access points to the site, and a watering and sweeping program to minimize impacts of haul operations. •

the lands and the mitigation measures cited in the EIR indicated the property is suited for Phases 1, 2A and 2B have been developed to a variety of residential housing products indicating that development.

Legality of Use

The subject property is within the jurisdiction of the City of San Clemente and the County of 1992 to the original Specific Plan. Another amendment is pending with the City. The Specific Plan that was amended in July 1992 is vested by the Development Agreement (1998) that had been executed between the City and Talega Associates. The original Specific Plan allowed for 2,265 ship golf course. Phases 310, 4, 5 and 6 require an additional U.S. Army Corps of Engineers 404 Orange. The City of San Clentente has approved a Specific Plan in 1998 and an amendment in July residential units, a 36-acre business park, a 6.6-acre hotel, 13 acres of commercial use, a champion-

on 713.2 acres of the Talega Specific Plan. This was approved by the San Clemente City Council on An Area Plan Land Use for Planning Areas B, C, G, H, and I with portions of D and E was submitted in September of 1998. This Area Plan Land Use document was prepared and submitted March 17, 1999. It is summarized on the following page.

10 Absent Planning Area 3-G

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LAND USE	ACRES	MAX. D.U.s
RESIDENTIAL		
"L" Residential Low1	120.6	435
"LM" Residential Low Medium ²	81.0	336
"M" Residential Medium	12.2	137
"MH" Residential Medium High	28.1	353
Subtotal	241.9	1,261
OPEN SPACE/RECREATION		
"GC" Golf Course	160.9	
"OS" Open Space 4.3	134.8	
Subtotal	295.7	
PUBLIC FACILITIES		
"p" Parks	31.7	
"ES" Elementary School ⁶	6.61	
"L" Private Recreation (Residential Low)	4.7	
Subtotal	56.3	
COMMERCIAL/BUSINESS		
"BP" Business Park	38.3	
"C" Commercial	4.2	
Subtotal	42.5	:
Potential Development Areas'	17.5	
Roads	59.3	
TOTALS	713.2	1,261

of an RDEB transfer from Tentative Tract Map No. 13935.
Includes 88.1 acres and 257 units of approved tentative tract maps.
Includes 29.4 acres of an approved tentative tract map.
Includes 24.1 acres of an approved tentative tract map.
Includes 14.1 acres of an approved tentative tract map.
Includes approximately 109.2 acres of undisturbed open space, approximately 20.4 acres of revegetated Includes 13.4 acres and 51 units of an approved tentalive tract map, plus an additional 30 units as a result

The Rolling Hills Feature Plan was approved by the Orange County Board of Supervisors in September of 1989. There have been subsequent amendments, the most recent being in 2000, which elininated health facilities land and expand two medium high density residential areas.

manufactured slopes, and approximately 5.2 acres of drainage facilities.

An 8.4 acre portion of the school site is located in approved Tentainer Tract Map No. 13935. The size and configuration of the 19.9 acre site is subject to city approval of a 30-unit RDEB transfer from Tentaitive Tract Map No. 13935. Absent such transfer, the school site would be 11.5 acres.

Residential development would be subject to a future Specific Plan Amendment.

In addition, there have been a number of tract maps approved for the project. These have been reported in the Chronological History section of this report.

Based on the legality of use analysis, the types of development for which the subject project can be utilized is considered to be residential, business park, commercial, golf course and open space.

Feasibility of Development

This consideration in the highest and best use analysis is economic in nature.

I have reviewed a Market Absorption Study on the Talega Project, which was prepared by Empire Economics in July 2001. This report was prepared for Capistrano Unified School District and for the issuance of bonds by CFD No. 90-2.

Empire Economics summarizes recent/expected development activity in the Southern California marketplace as follows:

- "The share of single-family residential construction activity, some 10.96% during 1996-2000, is expected to decrease to 5.25% during 2001-2005 and 3.0% during 2006-2010. The decreasing capture rates can be attributed to most of the Planned Communities within the Market Area approaching their build-outs.
- The share of multiple-family construction activity is also expected to follow a similar pattern during the foreseeable future, due to the increasing urbanization of the Market Area: from 18.58% during 1996-2000 to 10.5% for 2001-2005, and 6.0% during 2006-2010.
- The share of office construction activity is expected to decline from 18 78% during 1996-2000 to 15.00% during 2001-2005 and then 10.00% during 2006-2010. Although the market area has excellent accessibility being traversed by Routes 5, 405, 241 and 73, which are major transportation corridors, the amount of developable property is diminishing.
- The share of retail construction activity is expected to increase due to the higher levels of
 population in the Market Area as well as threshold levels being attained for various types of
 regional centers: from 6.50% during 1996-2000 to 7.75% during 2001-2005 and then to
 some 9.0% during 2006-2010. This is based upon the amount of residential construction
 activity that is expected to occur within the Market Area, and the demand that these
 households will generate for retail shopping centers, along with the threshold levels for
 various types of centers to be developed.

foresecable future, from some 4.48% during 1996-2000 to 6.25% during 2001-2005 and then 5.0% during 2006-2010, respectively. This can also be attributed to the Market Area being traversed by Routes 5, 405, 73 and 241, which enables it to capture the spillover of demand for established employment centers in Orange County, such as the John Wayne Airport Area and Irvine Spectrum."

The share of industrial construction activity is also expected to increase during the

Accordingly, the application of the Market Area's estimated capture rates to the expected development activity in Southern California results in the following levels of demand for residential, retail, office, and industrial products in the CFD No. 90-2 Market Area:

	Resi	Residential / Year	ar	Ž	Non Residentlal / Year	ıtlal/Yea	
Time	Single	Multiple	Total	Office	Retail	Indust.	
50013	Units	Units	Units	Acres	•	Acres	
1980-1985	2,191	2,835	5,026	148.0		32.9	198.3
1986-1990	4,536	6,106	10,642	239.3		74.4	
1991-1995	3,158	1,779	4,937	28.2		11.7	
1996-2000	4,406	2,887	7,293	301.4		84.2	
2001-2005	3,235	3,615	6,850	281.8	55.8	84.1	421.7
2006-2010	1,875	2,981	4,856	179.7	59.7	24.4	263.9

Residential activity is expected to amount to 6,850 new units per year during 2001-2005 and then decline to 4,856 units/year for 2006-2010, due to most of the Planned Communities approaching their build-outs. While commercial-industrial activity is expected to attain a level of 422 acres per year during 2001-2005 and then 264 acres/year for 2006-2010, as a result of the increasingly declining supply of property available for such developments.

The Empire Economic report's overview of competitiveness of housing prices for the CFD No. 90-2 housing market area is stated below.

"Therefore, the OC-Coastal and OC-Inland markets have recently experienced strong recoveries, as reflected by their prices/value ratios attaining new record levels; however, the searcity of new housing and the higher prices have resulted in a stable level of sales. So, some of the demand has shifted to western Riverside County and San Bernardino. Consequently, the SB-West and RC-West housing markets experienced increasing levels of sales for new homes in the recent years. However, their prices/value ratios have thus far just starting to rise."

The Empire Economics report has also addressed the development potential of Planned Communities in the subject market area. This is summarized below.

"Therefore, as the various PC approach build-out, there is a reduction of the supply of residential products that are coming to the marketplace. During 2000m, the rate of absorption declined to some 3,000 units, as compared to 4,500 units in the prior years. Furthermore, most of the remaining supply is concentrated in the PC of Talega and Ladera which are developing on a phase-phase basis. Consequently if the current economic and financial market conditions continue to generate a strong demand for housing, then the residential market in south Orange County may encounter a significant supply shortage. Thus, the residential market conditions for the currently active and forthcoming PC, such as CFD No. 90-2 (Talega), are expected to be favorable.

The report also addressed the market conditions for the industrial, retail and office markets in Southern California and Orange County. The report has concluded the following:

"Therefore, the retail markets for Orange County and South Orange County have recently experienced declining vacancy rates as well as increasing lease rates, and so they are regarded as having established an economic recovery."

They have stated the same for the industrial and office market in their report.

It should be noted that the absorption schedules presented in the market absorption report represent the structure being completed as well as being occupied by a final-user. In the preparation of the appraisal I have taken into consideration that occupancy by the end user (typically homeowner) generally occurs at least one year after the infrastructure and grading has been complete. Therefore, in analyzing the absorption schedules from Empire Economics, I have considered an absorption of lands 1+ year earlier since in my cash flow analysis I am considering the sale to the merchant builder in my cash flow analysis. I have also taken into consideration the Empire Economic is "market entry" for the villages, which is listed in the estimated absorption schedule.

Also factored into the feasibility of the development is the success of the existing projects, including the sale of lands in the Business Park. Following is a summary of these developments.

	Planning	•	Total	Recorded	Sold
Phase	Area	Project	Units	Transactions	Not Closed
-	1-D/1E	Tierra Linda	89	19	. —
_	1-F/G	San Rafael	80	76	
_	1-H/1-I	Monterey	801	108	
_	[-]	Pacifica	47	39	
7	2-B	Vizcaya	14	13	
7	2-F	Carmel	98	89	
7	2-G	Seaside	9	100	
7	2-H	Solana	120	108	
7	2-1	Trindad	105	16	
7	2-M	Farallon Ridge	82	12	
7	2-P	Farallon Ridge	47	Not Yet Marketed	
7	2-V	Pacifica Summit	19	•.0-	
7	2-C	Age Restricted	283	**-0-	
7	2.0	Apartments	252	Not Yet Marketed	
7	2-N	Affordable	186	Not Yet Marketed	
7	2-0	Miraleste	107	Not Yet Marketed	
7	2-R	Semi-Custom	63	Not Yet Marketed	
7	2-S	Cantabria	28	Not Yet Marketed	

*Fifty-five sales under contract.

**One hundred and four units under contract.

The above represents a strong demand for the existing residential product currently being marketed in the Talega Masterplan area.

SUMMARY HIGHEST AND BEST USE - AS VACANT

The final determinant of the highest and best use as vacant is the interaction of the previously discussed factors (i.e. physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is my opinion that the highest and best use for the proposed development of the subject property is for a master planned residential project in a phased development consistent with the land use that has been approved for the project

SUMMARY HIGHEST AND BEST USE - AS IMPROVED

The existing residential product is average to excellent quality new detached residential and attached housing product. These uses are considered to be the highest and best use of the subject project.

VALUATION PROCEDURE

The valuation of the subject property will be presented in the following format. First, a discussion of the market data, which is utilized in the valuation of the subject property, will be presented. The valuation analysis for the subject property will be in two sections.

Section I will address the planning areas which have been sold to the merchant builders. The valuation will utilize the Sales Comparison Approach, which is defined as:

"The process in which a market value estimate is derived by analyzing the market for similar properties and comparing these properties to the subject property"."

The planning areas that have been sold to merchant builders will be valued independently. Although these properties were sold in a "blue top" or a mass graded condition, some planning areas are not yet in such a condition. The majority of these planning areas have been developed with housing products. The current status of the majority of the planning areas are completed homes, homes under construction, and finished lots and superpad lots. Each planning area will be valued based on its current status. Houses that are currently under construction will be valued as a finished lot as opposed to any "partial completion value".

Section II will address the valuation of the remaining master developer owned properties. In the valuation of these planning areas, the value will be estimated by using a Discounted Cash Flow Analysis (also known as Development Procedure). This is defined as

"The procedure for valuing undeveloped acreage that involves the costs of development and the probable proceeds from the sale of developed lots". 11

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specific plan documents (the City of San Clemente and the County of Orange). The property is currently undeveloped with different planning areas in varying stages of entitlement. I have reviewed backbone infrastructure costs prepared by Robert Bein, William Frost & Associates builder improvement costs on the majority of the planning areas have been estimated by The Moote Group. A list of all the planning areas and the cost estimates for each of the planning areas, which 'salable condition" of the subject property. The master developer has entitlements under two "RBF"). A letter by Jesfrey T. Okamoto, P.E., RBF, dated August 13, 2001, indicates that these are representative costs. A copy of this letter is located in the Addenda of this report. In addition, the have been prepared by The Moote Group, is located in the Addenda of this report. Both the backbone infrastructure and builder improvement costs have been retained in my files. As the property is under development and remaining costs are available to determine what is remaining to this property is the condition in which it will be sold on a retail basis. That is, there are planning condition, and commercial parcels which are being sold in a "superpad" condition on a per square In the case at hand, the Discounted Cash Flow Analysis will take into consideration the retail or be spent to construct finished lots, it is my opinion that the most appropriate unit of comparison for areas which are being sold in a "finished lot" condition, planning areas being sold in a "superpad" foot basis. The Sales Comparison Approach will be utilized in determining the retail value. In the Sales Comparison Approach market value will be estimated by comparing properties similar to the subject property that have recently sold, are listed for sale, or are under contract. After determining the retail value of the subject property, the next step in the Discounted Cash Flow Analysis is to determine the absorption period to determine the timing of the sales of the planning areas. In this case the timing of the sales refers to the sale of a planning area to a merchant builder or in the case of the commercial property, the builder or owner user. Next the associated costs with the development of the site to a finished or salable condition will be determined in conjunction with the absorption schedule. These costs, as well as indirect costs (marketing, administration, ad valorem and special tax obligation, and interest on land loan), are considered and deducted from the gross revenue (retail value). Finally, the resulting cash flow will be discounted by an appropriate discount rate due to (1) the time value of money, (2) the risk associated with the project; and (3) the profit that the developer would require.

¹¹⁻fhe Appraisal of Real Estate, Eleventh Edition

¹³The Dictionary of Real Estate Appraisal, AIREA, 1989

The analysis of the above revenues and costs results in a present value for the subject property in its "as is" condition, assuming the improvements as a result of the subject CFD are installed

Section III represents the recorded transactions that have occurred to the individual homeowners. These sales represent current market value and are listed within this section of this report.

MARKET DATA DISCUSSION

Residential Land Sales

County marketplace. In addition to the subject sales, I have collected over thirty sales from the South Orange County area. These have been separated and reported according to the following I have completed a due diligence of collecting comparable "merchant builder sales" in the Orange

- Attached Land Sales
- Residential Lot Sales (2000 to 4000 sf) Residential Lot Sales (4000 to 6000 sf)
 - Residential Lot Sales (6000+ sf)

These sales are discussed under the appropriate category as follows. Summary charts of the sales are located in the Addenda of this report

Attached Land Sales

market for existing apartments is extremely strong. The apartment market in Orange County is one apartment unit per 8.6 new jobs created. The higher the ratio of units per new job, the more A total of seventeen (17) land sales were collected and analyzed. It should be noted that the current basically at full occupancy, at over 95%. A review of the Orange County market with other metropolitan areas indicated that Orange County has one of the highest occupancy rates with only potential for creating pent up demand for apartments in that market. This has created greater demand for apartment units with a limited supply. In addition, rents should continue to increase and occupancy rates remain high.

These sales are summarized in chart form and located in the Addenda of this report. A brief description of each is discussed below

The development will consist of approximately 539 luxury apartment units in two components consisting of 188 townhome units on 11.8 acres and 351 two- story, walk-up units on Data No.1 is a sale of a mass graded site from the Irvine Company to Irvine Apartment Communities. The price was established by arbitration procedures involving several third part 17.8 acres. A CFD formed with annual tax of approximately \$908 per unit. The price per unit abstracted from this sale is \$57,724. appraisers.

is estimated at approximately \$1,425 per unit. There are no special taxes or assessments that Data No. 2 is a mass-graded site located in Irvine at the prime corner of Jamboree Road and Michelson Drive. The site has entitlements for 1,226 units. The average projected apartment rental encumber this site. The price per unit abstracted from this sale is \$32,626. Data No. 3 is a mass-graded site in Mission Viejo. The site has slope problems and the sale There are two CFDs that encumber the site. The price per unit abstracted from this sale is \$18,842. recording was delayed due to litigation. The buyer has fees totaling approximately \$7,500 per unit.

Data No. 4 is also located in Mission Viejo with the City of Mission Viejo being the seller. There were two separate pads as well as slopes and SCE easements that impacted the site. The price per unit abstracted from this sale is \$16,204. The sales price was negotiated approximately 2 years prior to the recordation.

negotiated in early 1997 at the same price based upon a yield of 475 units. The closing was held up due to the sale of Mission Viejo Company's assets to Shea Homes and protests from the neighboring condominium homeowners. The closing date was extended to the end of 1997 and the parties Data No. 5 is sale of a mass-graded site located in Aliso Viejo. The transaction was originally reportedly agreed to keep the same price for a lesser number of units in recognition of rising land values during the closing delay. Mello-Roos special taxes in the amount of \$955 encumber the site.

<u>Data No.</u> 6 is a mass-graded site also located in the Aliso Viejo community. This is an older sale. The site had an approved density of 23.8 units per acre and 124 apartment units. A Mello-Roos special lax of \$955 per unit per year impacts the subject property. The price per unit abstracted from this sale is \$25,661.

<u>Data Nos. 7 and 8</u> are both sales in Oak Village, a new development in the City of Irvine. While both are located in the same development, the difference relates to the date of sale (No. 8 sold in Phase I, while No. 7 is a current sale pending in Phase II). Both sales are subject to an Assessment District with a total tax and assessment rate exceeding 2%.

<u>Data</u> No. 9 is a recent sale (08/00) within the subject project (Planning Area 2-0). This sale is scheduled to close within the next three months. According to the developer, there were a number of offers on this site.

Data No. 10 is a safe in Irvine. The site sold in a blue top condition with a condominium product averaging 1,128 sf and a sale price of \$193,000 developed on the site.

<u>Data No. 11</u> is a sale in Sector 2 of West Irvine. This 8.8-acre parcel sold in a blue top condition. The proposed housing product is townhomes with a 15.7 density per acre. The average sales price is \$239,100 for an average unit of 1,387 sf.

<u>Data No. 12</u> is also a sale in Sector 2 of West Irvine. This 9.3-acre parcel sold in a blue top condition. The density is 14.2 units per acre for this townhome project. The average sales price is \$260,400 for an average unit of 1,549 sf.

<u>Data No. 13</u> is located in Oakcreek within the City of Irvine. This project has a density of 20.3 units per acre for a condominium project with a average sales price of \$171,000 for an average unit of 921.

<u>Data No. 14</u> is located in Phase III of Ladera Ranch. This project of townhomes consists of 158 units on 8.5 net acres for a density factor of 18.59 dwelling units per acre. The finished price per unit was \$59,017 per unit. The average base price for the product is estimated at \$212,216 for the 1,254 square foot average unit.

Data No. 15 is also located in Phase III of Ladera Ranch with a closing in the 1" quarter of 2001. The finished price per unit was \$74,106 for the 100 units. The density for the 7.20 nct acres was 13.89 dwelling units per acre. The average base price was \$224,000 for the 1,339 square foot average unit.

Data No. 16 was an acquisition of 130 units in Phase III of Ladera Ranch with a density factor of 12.62 units per acre. The finished price per unit was \$92,973 with the average square footage being 1,575 and the average base price being \$246,682.

Data No. 17 consists of 144 units in Phase III of Ladera Ranch. These units are anticipated to be 1,725 square feet with an average base price of \$235,667. The acquisition price per lot (superpad) was \$46,444 per dwelling unit and the price per finished unit was \$64,440.

The above market data was considered and appropriate adjustments were made in their comparison to the subject planning areas in arriving at each value conclusion.

Residential Lots (2000 to 4000 SF)

There were thirty-one land sales that were collected for this category of land. These are summarized in the Addenda. A brief description of these sales is as follows.

Data Nos, 1 thru 3 represent sales within the subject project. Data No. 1 represents a sale of 85 lots to Lennar Homes in 12/98. The site was delivered in a mass graded condition. The product to be developed is a luxury villa with a proposed pricing in the \$190,000 to \$230,000 range. The costs were higher than typical as a result of extensive recreation facilities (including pool) being included in the "cost to complete a finished lot". Data No. 2 is a sale of 120 lots with the lot size being 2,700

square feet. The product type for these is referred to as "Solana" with prices ranging from \$212,000 to \$232,000. The price per finished lot is \$103,063. Data No. 2 is a townhouse project with a density of 12.8 dwelling units per acre. The price per unit is \$79,261.

Data Nos. 4 thru 8 refer to sales to mcrchant builder transactions in the Ladera masterplanned community, just north of the subject property. Data No. 4 is a clustered development with product type in the 1,550 to 1,700 square foot range and an average sales price of \$210,000. Data No. 5 is a detached housing product with homes proposed in the 1,500 to 1,725 square foot range and an average sales price of \$223,300. Data No. 6 is also a detached product with a square footage range of 1,700 to 2,050 and an average sales price of \$253,300. Data No. 7 is similar to Data No. 6 with a similar product and average sales price. Data No. 8 is a detached home with a housing product ranging from 1,900 to 2,275 square feet and an average sales price of \$226,200. The Ladera project is subject to a CFD and, according to estimates by David Taussig & Associates (special tax consultant), the tax rate is anticipated to be 2%.

<u>Data Nos. 9 thru 11</u> are located in Las Flores, another masterplanned community within proximity to the subject property. Data No. 9 is a cluster-detached product with housing product ranging from 1,075 square feet and an average sales price of \$170,000. Data No. 10 is a detached home product with an average sales price of \$200,000 and housing product ranging from 1,777 to 2,203 square feet. Data No. 11 is also a detached product with an average sales price in the mid \$200,000 range and square footage ranging from 1,921 to 2,312. Las Flores has a CFD with a special tax of 1.95%.

Data Nos. 12 thru 14 are located in Aliso Viejo, another masterplanned community in South Orange County. This community is more built-out than either Ladera or Las Flores with development occurring over the last 10 years. Data No. 12 is a detached home product with an average sales price of \$250,000 and housing product ranging from 1,830 to 2,140 square feet. Data No. 13 is a cluster detached product with an average sales price in the \$250,000 range with housing product 1,234 to 1,800 square feet. The Aliso Viejo masterplanned community is subject to both a County of Orange CFD and a Capistrano Unified School District CFD at an approximate tax rate of 1.86%.

<u>Data No. 15</u> is a sale in the Forester Ranch, a masterplanned community also located in San Clemente. Housing product is in the 1,820 to 2,150 square foot range with an average sale price of \$255,000

Data No. 16 is an older sale in San Clemente.

<u>Data No. 17</u> is a recent transaction within the subject project. The proposed product for this development is referred to as "Farallon Ridge". The homes range in size from 1,871 to 2,344 sf with sale prices ranging form \$340,000 to \$380,000.

<u>Data No. 18</u> is another sale within the subject project. This 295-unit project is "age restricted" with a variety of housing products proposed on varying lot sizes. The overall density of this product is 6 units per acre. This sale is provided for information purposes only.

<u>Data No. 19</u> is also located in Phase 2 of Ladera Ranch. The product developed on this parcel ranges from 2,000 to 2,409 sf with a sales price range of \$300,000 to \$350,000. The price per unit for this sale is \$152,000 per finished lot.

Data No. 20 is also located in Phase 2 of Ladera Ranch. The product developed on this parcel ranges from 2,650 to 3,117 sf with a sales price range of \$380,000 to \$400,000.

Data No. 21 is a purchase in Aliso Viego for a housing product ranging in size from 1,499 to 2,067 sf. At the time of sale the average price was \$270,000. It was subsequently increased to \$305,000.

Data No. 22 is a sale in Sector 2 of West Irvine. The single-family dwellings will average 1,907 sf with a sales price of \$317,500. This will be a phased sale.

<u>Data Nos. 23 and 24</u> are both located in Phase 2 of Ladera Ranch. No. 24 is a detached product in a clustered development with square footages ranging from 1,5225 to 2,029 sf and sales prices in the mid-\$200,000. No. 25 is also a detached product on a small lot with base pricing in the mid-\$200,000's.

<u>Data No. 25</u> is a sale in Sector 2 of West Irvine with a housing product average in size of 1,954 sf and pricing of \$292,900. This is a phased sale.

<u>Data No. 26</u> represents a sale in the Talega Project. This project consists of 47 units each with an average lot size of 3,500 sf. This sale recorded in July 2000 and sold on the basis of \$35,449 per lot.

Data No. 27 is a sale in Ladera Ranch (Phase III) that consists of 83 lots on 8.80 acres. This represents a density factor of 9.43 dwelling units per acre. The typical lot size is 2,500 sf. The single family product is proposed to average 1,640 sf with an average base price of \$270,000. The sale price of the land was negotiated on a finished lot basis of \$111,451, but was delivered to the buyer in a mass graded condition.

<u>Data No. 28</u> is a sale in Ladera Ranch (Phase III) that consists of 98 lots on 11.0 net acres. This represents a density factor of 8.91 dwelling units per acre. The typical lot size is 2,880 sf. The single family product is proposed to average 1,852 sf with an average base price of \$294,500. The sales price of the land was negotiated on a finished lot basis of \$111,948, but was delivered in a blue top condition at \$75,000 per dwelling unit.

<u>Data No. 29</u> is another sale in Ladera Ranch (Phase III) that consists of 69 lots on 7.40 net acres. This represents a density factor of 9.32 dwelling units per acre. The typical lot size is 3,200 sf). The single family detached product is proposed to average 1,988 sf with an average base price of \$324,729. The sales price of the land was negotiated on the basis of \$140,952 per finished lot but the land was delivered in a blue top condition at \$103,050 per dwelling unit.

Data No. 30 is a sale in Ladera Ranch (Phase III) that consists of 111 lots on 18.10 net acres. This represents a density factor of 6.13 dwelling units per acre. The typical lot size is 3,500 sf. The single family detached product is proposed to average 2,184 sf with an average base price of \$346,736. The sale price of the land was negotiated on a finished lot basis of \$166,651 but the land was delivered to the buyer in a blue top condition at \$139,532 per unit.

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Data No. 31 is another sale in Ladera Ranch (Phase III) that consists of 113 lots on 19.5 net acres for a density factor of 5.79 dwelling units per acre. The typical lot size is 4,000 sf. The single family detached product is proposed to average 2,343 sf with an average base price of \$382, 265. Sales price of land was negotiated on the basis of \$168,011 per finished lot but was delivered to the buyer in a blue top condition.

The above market data was considered and appropriate adjustments were made in their comparison to the subject planning areas in arriving at each value conclusion.

Residential Lots (4000 to 6000 SF)

A total of thirty-two sales were collected for this category. A summary of these sales is located in the Addenda. A brief description of each is given below.

Data Nos. 1 thru 4 are sales within the subject development and represent December 1998 closings. No. 1 (Terra Linda), acquired by Catellus Residential Group, has a housing product with an average sales price of \$404,000 to \$566,000 and a square footage range of 2,406 to 2,839. No. 2 (San Rafel) is proposed to be more of an upscale project, ranging from 3,116 to 3,536 square feet with a sales price range of \$613,000 to \$717,000. No. 3 (Monterey) is an acquisition by Standard Pacific with a current pricing of \$442,000 to \$640,000 and a unit range of 2,692 and 3,261 square feet. No. 4 is also a purchase by Standard Pacific who designates this as "Pacifica" with sales prices ranging from \$517,000 to \$875,000 and size ranging from \$3,936 square feet.

Data Nos. 5 thru 8 are located in Ladera Ranch, a masterplanned community north of the subject property. No. 5 is a proposed product of detached homes between 2,150 and 2,600 square feet with a proposed sale price of \$337,600. No. 6 is also a detached single family project with an average sales price of \$382,000 and homes proposed at 2,450 to 2,850 square feet. No. 7 is a sale of 97 lots with a proposed average home sales price of \$422,000 and square footage between 2,775 to 3,150 square feet. No. 8 has an average sales price of \$491,300 with homes to range from 3,100 to 3,650 square feet. The Ladera Ranch development is subject to CFD special taxes and total taxes approximate

Data Nos. 9, 11, 18 and 19 are located in Aliso Viejo, an existing masterplanned community. No. 9 is a detached home project with an average sale price of \$300,000 and a range of 2,388 to 2,770 square feet. No. 11, also located in Aliso Viejo, is a development with detached homes ranging in size from 2,841 to 3,131 square feet and sales prices in the low \$300,000's. No. 18 is another project in Aliso Viejo with detached homes ranging from 2,296 to 2,663 square feet and sales prices ranging from \$335,000 to \$368,000. No. 19 is an older sale of 154 lots in the Aliso Viejo community. This project had an average sale price of \$325,000 with homes ranging in size from 3,840 to 3,680 square feet. Aliso Viejo has a combined tax rate of 1.86% including CFD special tax obligation.

<u>Data Nos. 10 and 12</u> are located in the Rancho Santa Margarita, an established masterplanned community in South Orange County. This development has been in existence for 10 years. No. 10 is of a detached product with an average sales price of \$272,500 and homes ranging in size from 1,983 to 2,779 square feet. No. 12 is a purchase by William Lyon Company of 99 lots with a proposed detached housing product of 2,200 to 2,800 square feet and an average sales price of \$370,000.

<u>Data Nos. 14 and 15</u> are located in the Coto de Caza area of South Orange County. Both developments are detached single family residences. No. 14 has a product in the high \$300,000 range, while No. 15 is in the same price category.

<u>Data Nos. 16 and 17</u> are both located in Mission Viejo, the oldest masterplanned community in the South Orange County marketplace. This community is centered around a lake with these two transactions located in the same locale of Olympiad Road and Alicia Parkway. Both builders, Standard Pacific and D.R. Horton, had sales prices in the \$400,000 range with homes in the 2,500 to 3,000 square foot range.

Data No. 20 is a failed escrow that was located in San Juan Capistrano.

<u>Data No. 21</u> is a sale within the subject project, acquired by Shea Homes on December 29,1998 on the basis of \$133,000 per finished lot.

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Data Nos. 22 and 23 are located in Phase 2 of Ladera Ranch. No. 22 is a William Lyon project with floor plans ranging from 2,650 to 3,117 sf with prices ranging from \$400,000 to \$450,000. No. 23 is a Warmington Homes project with housing product ranging from 3,105 to 4,072 sf and base pricing from \$485,000 to \$560,000.

Data Nos. 24 and 25 are located in Forester Ranch, a masterplan development in San Clemente. No. 24 is a project with homes priced from \$410,000 to \$450,000 and floor plans ranging from 2,517 to 2,903 sf. No. 25 is a project with homes priced from \$400,000 to \$500,000 and floor plans ranging from 3,477 sf.

<u>Data Nos. 26 and 27</u> are both located in Sector 2 of West Irvine. No. 26 has a housing product that averages 2,849 sf with an average base price of \$357,870. Both are phased land transactions.

<u>Data No. 28</u> is a sale in Ladera Ranch (Phase III) that consists of 102 lots on 19.90 acres. This represents a density factor of 5.13 dwelling units per acre. The typical lot size if 4,500 sf. The single family detached product is proposed to average 2,450 sf with an average base price of \$395,284. The sales price of the land was negotiated on a finished lot basis of \$175,446 but was delivered to the buyer in a blue top condition at \$138,000 per unit.

<u>Data No. 29</u> is a sale in Ladera Ranch (Phase III) that consists of 99 tots on 22.30 net acres. This represents a density factor of 4.44 dwelling units per acre. The typical lot size is 5,000 sf. The single family detached product is proposed to average 2,806 sf with an average base price of \$442,509. The sales price of the land was negotiated on a finished lot basis of \$188,975 but was delivered to the buyer in a blue top condition at \$149,495 per unit.

Data No. 30 is a sale in Ladera Ranch (Phase III) that consists of 58 lots on 14.10 net acres. This represents a density factor of 4.11 dwelling units per acre. The typical lot size if 5,500 sf with an average base price of \$514,138. The sales price of the land was negotiated on a finished lot basis of \$195,000.

Data No. 31 relates to a recent transaction within the subject project. This is Planning Area 2-S, which was acquired in December 2000 by BHC Residential, L.L.C. This planning area consists of 16.5 acres with approval for 58 lots, each with a lot size of 5,500 sf. The single family detached product is anticipated to range in price from \$550,000 to \$650,000 with a dwelling size of 2,846 to 3,650 sf. The sales price of the land was negotiated on the basis of \$177,678 per lot.

<u>Data No. 32</u> is also a recent transaction with the subject project (Planning Area 2-Q). This planning area ("Miraleste") consists of 107 lots on 24.3 acres. This represents a density factor of 4.40 dwelling units per acre. The typical lot size is 5,000 sf. The single family detached product is anticipated to range in price from \$457,000 to \$490,000 with a dwelling size of 2,777 to 3,231 sf. The sales price for the land was negotiated on the basis of \$160,143 per finished lot.

The above market data was considered and appropriate adjustments were made in their comparison to the subject planning areas in arriving at each value conclusion.

Residential Lots (6000+SF)

I have investigated nine (9) merchant builder transactions as well as a number of individual lot sales in the South Orange County areas. These are summarized in the Addenda. A brief description of each is below.

<u>Data No. 1</u> is a recent transaction in the Tustin Ranch area. Standard Pacific purchased 46 lots that range in size from .25 to .83 acres. Minimum lot pads will be 9,600 square feet with views available from the majority of the sites. Average sales price of homes will be \$809,000. Sales price was negotiated on the basis of \$336,000 per finished lot.

<u>Data No. 2</u> is sale of 50 lots in the Dana Point area with lot sizes in the 10,000 to 12,000 square foot range and home prices over \$1,000,000.

<u>Data No. 3</u> is a sale of 7 lots in San Juan Capistrano. These lots range in size from 9,200 to 14,000 square feet. The proposed product for this development is priced at \$625,000 with the size of the homes ranging from 3,650 to 3,950 square feet.

Data No. 4 is a pending sale in a project referred to as Pacific Point in the San Juan Capistrano area. The project is referred to as "The Vista" with 65 of the 85 lots having ocean views. While the agreement took place July of 1997, litigation has stymied the closing of the transaction (litigation involves slides on other portions of property owned by Sun Cal, the seller). The transaction was structured in three "take-downs" with the first lots being sold at \$250,000 and the last 45 lots being acquired at \$280,000.

<u>Data No. 5</u> is a sale of 90 lots in the Coto de Caza area and included 90 lots with lot sizes of 6,300 square feet. Detached homes with sizes ranging from 3,186 to 3,800 square feet were planned for this project. The price was based on a finished lot basis of \$265,000 per lot.

Data No. 6 involved the reporting of three individual lot sales in the Coto de Caza area. These were custom lots and the lot size being reported is the pad area with sales prices ranging from \$249,000 to \$389,000.

Data No. 7 is a transaction within the subject project. This development, known as "Vizcaya", is currently being developed with homes ranging in size from 4,869 to 5,484 sf and pricing in the \$1,000,000 range.

<u>Data No. 8</u> is another sale within the subject development. This project will be an "extension" of Standard Pacific's "Pacifica" project. The housing product ranges in size from 3,542 to 4,188 sf with the base price ranging from \$515,990 to \$600,000+. Lot premiums range up to \$120,000.

<u>Data No..</u>9 is a sale in Phase 2 of Ladera Ranch in which homes will range form 3,750 to 4,524 sf and base pricing will be in the low \$600,000's.

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<u>Data No. 10</u> is a recent transaction within Forester Ranch. These lots sold on the basis of \$224,217 per finished lot.

The above market data was considered and appropriate adjustments were made in their comparison to the subject planning areas in arriving at each value conclusion.

Business Park Land Sales

A total of eleven (11) comparables were collected for this land category. A summary of these sales is listed in the Addenda. A brief description of each is below.

<u>Data No. 1</u> is at the northerly corner of Avenida Pico and La Pata. The site was purchased for \$525,000 or \$10.10 per square foot. The site is fully improved with streets, curbs, and gutters.

<u>Data No. 2</u> is a 6.45-acre site at the easterly corner of Avenida Pico and La Pata. The site was purchased in July of 1998. An 87,868 sf R&D building has been constructed on the site. The land transaction of \$1,900,000 represents a price per square foot of \$6.76.

<u>Data No. 3</u> is located in Rancho San Clemente Business Park. This 1.621-acre site was purchased for the development of a two-story corporate headquarters. The purchase price of \$635,000 represents a price per square foot of \$9.00. The site is subject to an assessment lien.

<u>Data No. 4</u> is located at the southwest corner of Avenida La Pata and Calle Del Cerro in the City of San Clemente. This purchase of 5.47 acres was for the development of small industrial buildings to be constructed and offered for sale. The price per square foot abstracted from this sale is \$7.00.

<u>Data No. 4A</u> is a resale of Data No. 2. The new buyer, a developer, proposes to develop eight small industrial buildings ranging in size form 6,800 to 26,000 sf. The purchase price for this site was \$2,204,000 or \$9.25 per square foot.

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<u>Data No. 5</u> is another transaction in Rancho San Clemente Business Park, with the buyer developing a two-story concrete tilt-up 23,000 sf R&D building. The site was purchased for \$625,000 or \$9.52 per square foot.

<u>Data No. 6</u> is a finished site within the Rancho San Clemente Business Park purchased for development of a self-storage project, known as Rancho San Clemente Self Storage. The two-story project will contain approximately 80,000 sf divided into 712 units. The land was purchased for \$875,000 or \$7.75 per square foot.

<u>Data Nos. 7 through 11</u> are sales within the subject project and are recent transactions. These sales occurred from September 28, 2000 through December 19, 2000 on the basis of \$9.00 to \$10.25 per square foot.

The above market data was considered and appropriate adjustments were made in their comparison to the subject planning areas in arriving at a finished lot value.

SECTION I

DESCRIPTION AND VALUATION - MERCHANT BUILDER PARCELS

The following represents a description of the Planning Areas located within the Talega Specific Plan that have been purchased by Merchant Builders.-

PLANNING AREA 1-D/1-E ("TERRA LINDA")

This planning area is located within Phase I and was purchased by Catellus Residential Group who recorded the transaction on January 6, 1999. The land acquisition is discussed in the Sales History section of this report. This project consists of 68 lots each typically 5000 sf in size. A valuation for the completed merchant builder home will be complete. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation section will conclude the section.

Of the 68 lots there have been 67recorded transactions through July 1, 2001. These will be addressed and valued in Section III of this report. The L remaining lot is a completed home.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans for this planning area, of which only Plan 1 remains. This is detailed as

follows:

Flrs/Gara	2-/3-0
Room Count	8-4-3
Builder Units	_
Plan	-

Sq. Ft. 2,406

age j There have been 16 recorded transactions that range from \$383,019 to \$559,990. The average price for the 16 sales is \$457,886 and the median is \$451,121. The concluded base price for this model is \$455,000 and is supported by the subject sales as well as comparable market data.

1 unit x \$455,000/unit = \$455,000

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TOTAL	\$2,336,000	\$2,336,000	(\$93,440) (\$186,880)	(\$280,320)	\$2,055,680	\$2,025,251	\$2,025,251
MONTH 2	\$1,168,000	\$1,168,000	(\$46,720) (\$93,440)	(\$140,160)	\$1,027,840 <u>0.9803</u>	\$1,007,587	\$2,025,251
MONTH 1	\$1,168,000	\$1,168,000	(\$46,720) (\$93,440)	(\$140,160)	\$1,027,840 0.9901	\$1,017,663	\$1,017,663
MONTH	INCOME: Retail Sales	TOTAL INCOME	EXPENSES: Marketing & Carrying Expenses Profit	TOTAL EXPENSES	NET CASH FLOW Discount Factor	DISCOUNTED CASH FLOW	CUMULATIVE DISCOUNTED CASH FLOW

Value Conclusion

The conclusion for this planning area is as follows.

\$ 455,000	455,000
Merchant Builder Owned Homes	Total Value

There have been 68 permits issued on the project, which would indicate all of the lots are classified as Developed Property. The total value of \$455,000 is allocated to the "developed category".

PLANNING AREA 1-F/1-G ("SAN RAFAEL")

This planning area is located within Phase 1 and was purchased by Catellus Residential Group 0who recorded the transaction on January 6, 1999. The land acquisition is discussed in the Sales History section of this report. This project consists of 80 lots that have a typical 5000 square feet lot. First, a valuation for the completed merchant builder homes will be addressed. Finally, a discussion of remaining costs to complete, if any, will take place.

Of the 80 lots there have been 76 recorded transactions through July 1, 2001. These will be addressed and valued in Section III of this report. The balance is 4 completed homes.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans for this project, which are detailed on the following page.

Sq. Ft.	3,116	3,445	3,530
Flrs/Garage	2-/3-G	2/3-G	2/3-G
Room Count	8-4-3.5	9-5-4	9-5-4.5
Builder Units	2	2	0
Plan	-	2	3

Plan 1 has 18 recorded transactions that range from \$449,000 to \$810,000. The average price for these 18 transactions is \$583,292 and the median price is \$583,894. Thave concluded \$583,000 for this model.

2 units x \$583,000 p/unit = \$1,166,000

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Plan 2 has 26 recorded transactions that range from \$470,000 to \$879,990. The average price for these 26 transactions is \$588,652 and the median price is \$580,765. I have concluded \$585,000 for this model.

2 units x \$585,000 p/unit = \$1,170,000

The total retail revenue from the four units is 2,336,000. I have estimated that these 4 units will be absorbed within the next two months. Discounting the total of \$2,336,000 at 12% for two months for risk and time value of money results in a bulk value of \$2,025,251

Value Conclusion

The conclusion for this planning area is as follows.

(Say) \$2,025,000	(Say)
\$2,025,251	Total Value
\$2,025,251	Merchant Builder Owned Homes

All of these lots are classified as Developed Property.

PLANNING AREA 1-H/1-1 ("MONTEREY")

This planning area is located within Phase 1 and was purchased by Standard Pacific who recorded the transaction on December 24,1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 108 lots, which have a typical 4,950 square feet lot. All 108 lots are recorded transactions through July 1, 2001. These will be addressed and valued in Section III of this report.

PLANNING AREA 1-J ("PACIFICA")

This planning area is located within Phase 1 and was purchased by Standard Pacific who recorded the transaction on December 24,1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 47 lots that have a typical 6,300 square feet lot. The homes

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under construction will be valued on a finished lot basis rather than to attribute value to a partially completed improvement. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Then, the retail value for the lots in a finished condition will be addressed. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation section will conclude the section.

Of the 47 lots there have been 39 recorded transactions through July 1, 2000. These will be addressed and valued in Section III of this report. The balance of the lots consists of 3 completed homes and 6 finished lots, one of which is currently used as a parking lot for the models.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans, which are detailed as follows.

Sq. Ft. 3,498 3,903	3,936
Firs/Garage 2/3-G 2/3-G	2/3-C
Room Count 8-4-3.5 8-4-4	9-5-4.5
Builder Units 0 1	_
Plan 1 2	m

Plan 2 has 12 recorded transactions that range from \$620,500 to \$846,587. The average price for these 12 recorded transactions is \$691,112 and the median price is \$675,118. I have concluded \$800,000 for this model.

1 unit x \$800,000/unit = \$800,000

Plan 3 is sold out with the exception of the model home. There have been 15 recorded transactions that range from \$652,575 to \$817,500. The average sales price for these 15 transactions is \$716,963 and the median price is \$702,000. I have concluded at \$800,000 for this model.

1 unit x \$800,000/unit = \$800,000

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I have estimated that these 2 units will be absorbed in month; therefore, there is no discounting. The total value for the 2 units is \$1,600,000.

Finished Lot Valuation

There are 6 finished lots (homes under construction). I have considered the market data from Residential Lots Sales (6000 +) with the emphasis on Data Nos. 6 through 9. I have concluded at \$250,000 per finished lot.

6 finished lots x \$250,000/lot = \$1,500,000

Value Conclusion

The conclusion for this planning area is as follows

\$1,600,000	\$1,500,000	\$3,100,000
Merchant Builder Owned Homes	Finished Lot Value	Total Value

All of the permits have been issued on this tract therefore this value is considered in the developed

PLANNING AREA 2-B ("VIZCAYA")

This planning area is located within Phase 2 and was purchased by Woodbridge Development who recorded the transaction on December 23,1999. The land acquisition is discussed in the Sales History section of this report. This project consists of 14 lots that have a typical 11,200 square foot lot. All of the homes are complete with thirteen recorded sales. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Development Phase Master Developer Cost	Total Backbone Cost Budget (a)	Total General Development Cost Budget (c), (d)	Fotal Development Budget	Backbone Costs Completed	General Development Costs Completed	Adjusted Development Budget
Phase 1 - Catellus - Planning					Thomas as a	43 OF 70 100 F
Areas 1-D/E & 1-F/G	11,027,075 (b)	0	11,027,075	(11,027,075) (e)	0	0
Phase 1 - Standard Pacific Planning Areas 1, H/I & 1, 1	11 805 875 (h)		14 00 14			
Total Phase 1		0	22,922,950	(22,922,950)	0	0
Phase 2A - Lennar)	
Planning Areas 2-F & 2-1	7,675,935 (b)	0	7,675,935	(7 508 414) (e)	C	167 594
Phase 2A - Shea			3	(a) (1.1.1500(1)	Þ	176,101
Planning Area 2-G	9,157,923 (b)	0	9,157,923	(8,958,058) (e)	0	199.865
Phase 2A - Lyon						
Planning Area 2-H Dhase 24 - Woodkidge	6,117,948 (b)	0	6,117,948	(5,984,429) (e)	0	133,519
Planto Area 2-B		· · · · · · · · · · · · · · · · · · ·				
Phase 2A - Standard Pac/CRG	(a) 888,678,1		1,975,983	(1,932,859) (e)	0	43,124
Planning Area 2-C	18,923,840 (b)	2,432,575	21.356 415	(18 510 842) (9)	(1 020 677)	1 824 806
Total Phase 2A	43,851,629	2,432,575	46,284,204		(1,020,677)	2,368,925
Phase 2B - BHC						
Płanning Area 2-M	4,763,225 (b)	0	4,763,225	(4,154,022) (e)	0	609.203
Phase 2B - Standard Pacific						
Planning Area 2-V		0	5,127,082	(4,471,343) (e)	0	655,739
Phase 2B - BHC-Planning Arrea 2-P		1,084,209	3,730,445	(2,307,790) (e)	(454,920)	967,735
Phase 28 - BRE-Planning Arrea 2-0	3,307,795 (b)	1,355,262	4,663,057	(2,884,738) (e)	(268,650)	1,209,669
Phase 2B - Standard Pacific						•
Plaining Area 2-Q		3,170,172	11,208,113	(7,009,912) (e)	(1,330,163)	2,868,038
Priase 2b - Lyon-Planning Area 2-R		2,927,365	10,072,202	(6,231,033) (e)	(1,228,284)	2,612,885
Phase 2B - BHC-Planning Area 2-S	5,457,861 (b)	2,120,517	7,578,378	(4,759,817) (e)	(889,741)	1,928,820
lotal Phase 2B	36,484,977	10,657,525	47,142,502	(31,818,655)	(4,471,758)	10,852,089
Business Park - Others	5,235,497	1,431,156	6,666,653	(5,608,909)	(600.494)	3.457.250
Total Business Park	5,235,497	1,431,156	6,666,653	(2,608,909)	(600,494)	3,457,250
GRAND TOTAL	108,495,053	14,521,256	123,016,309	(100,245,116)	(6,092,929)	16,678,264

Footnotes located in Addenda of this report

There have been thirteen recorded transactions through July 1, 2001. There is 1 house which has not yet closed (Plan 1). These sales range for Plan 1 from \$900,000 to \$949,950. The average for the three sales was \$919,983 and the median price was \$910,000. I have considered a market value of \$915,000 for the remaining one house.

Cost to Complete

While the lots are considered to be in a finished lot condition there is additional infrastructure costs that remain to be completed. Please refer to the facing page in which this planning area has a total of \$43,124.

Value Conclusion

The conclusion for this planning area is as follows.

Merchant Owned Builder Home	\$915,000
Less Backbone Costs	(\$ 43,124)
Total Value	\$ 871,876
(Say)	\$ 872,000

The one house is complete and therefore is considered to be Developed Property.

PLANNING AREA 2-C ("SANDBRIDGE, SEAGARDEN, WATERLEAF")

This planning area is located within Phase 2 and was purchased by Standard Pacific Homes who recorded the transaction on February 8, 2000. The land acquisition is discussed in the Sales History section of this report. There are three Age Restricted residential projects within this Planning Area. There have been no recorded sales as of July 1, 2001; although a significant number of lots are under contract, scheduled to close in September of 2001. The project consists of 283 lots. Waterleaf has 75 total units of which there are 3 model homes, 47 homes under construction that are considered as finished lots, and 25 finished lots. Sandbridge has 67 total units of which there are 3 model homes, 52 homes under construction that are considered as finished lots, and 12 finished lots. Seagarden has a total of 41 lots of which there are 3 model homes, 35 homes under construction that are considered as finished lots, and 3 finished lots. These three projects total 183 lots. The remaining 100 lots are in a mass graded condition. First, a valuation for the completed merchant builder homes will be

Bruce W. Hull & Associates

SANDBRIDGE, SEAGARDEN, AND WATERLEAF AT TALEGA GALLERY

MONTH	MONTH 1	MONTH 2	MONTH 3	MONTH 4	TOTAL
INCOME: Retail Sales	\$1,156,250	\$1,156,250	\$1,156,250	\$1,156,250	\$4,625,000
TOTAL INCOME	\$1,156,250	\$1,156,250	\$1,156,250	\$1,156,250	\$4,625,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$46,250) (\$92,500)	(\$46,250) (\$92,500)	(\$46,250) (\$92,500)	(\$46,250) (\$92,500)	(\$185,000) (\$370 <u>,000)</u>
TOTAL EXPENSES	(\$138,750)	(\$138,750)	(\$138,750)	(\$138,750)	(\$555,000)
NET CASH FLOW Discount Factor	\$1,017,500 0.9901	\$1,017,500 0.9803	\$1,017,500 0.9706	\$1,017,500 0.9610	\$4,070,000
DISCOUNTED CASH FLOW	\$1,007,426	\$997,451	\$987,575	\$977,798	\$3,970,250
CUMULATIVE DISCOUNTED CASH FLOW	\$1,007,426	\$2,004,877	\$2,992,452	\$3,970,250	\$3,970,250

addressed (i.e. model home complex). This valuation will include a discounted cash flow due to the single ownership for a number of homes. Next, a valuation of the lots will be considered assuming a finished lot condition Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the valuation for this Planning Area.

Following is a summary of floor plans for Sandbridge at Talega Gallery.

Sq. Ft. 2,410 2,692 2,826
Flrs/Garage 1/2-G 1/2-G 2/2-G
Room Count 6-2-2 6-2-2 6-2-2
Builder Units 1 1 1
Plan 1 2 3

Plan One is from \$506,225 to \$636,225. The subject is a model home and highly upgraded. Based on the comparables sales under contract the subject is estimated to be \$600,000.

Plan Two is from \$515,000 to \$672,130. The subject is a model home and highly upgraded. Based on the comparable sales under contract the subject is estimated to be \$625,000.

Plan Three is from \$538,500 to \$678,775. The subject is a model home and highly upgraded. Based on the comparables sales under contract the subject is estimated to be \$650,000.

The project has averaged 2.54 units per week and has 34 of the 67 units under contract.

Following is a summary of the floor plans for Seagarden at Talega Gallery.

Sq. Ft. 1,578 1,957 2,045
Firs/Garage 1-/2-G 1/ 2-G 1/2-G
Room Count 6-2-2 6-2-2 6-2-2.5
Builder Units 1 1 1
Plan 1 2 3

Plan One is selling from \$357,000 to \$407,000. The subject is a model home and highly upgraded. Based on the properties under contract the subject is estimated to be \$400,000.

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Plan Two is selling from \$373,000 to \$415,000. The subject is a model home a highly upgraded. Based on the comparable properties the subject is estimated to be \$410,000.

Plan Three is selling from \$402,000 to \$433,000. The subject is a model home and highly upgraded. Based on the comparable properties the subject is estimated to be \$420,000.

The project has had an absorption rate of 2.33 units per week and has 31of the 41 units under contract.

Following is a summary of floor plans for Waterleaf at Talega Gallery.

Sq. Ft.	4,00,4	2,179	2,503
Flrs/Garage	0-7/1	1/2-G	1/2-G
Room Count	7-7-0	6-2-2	6-2-2.5
Builder Units	_	_	
Plan	_	2	e,

Plan One is from \$441,490 to \$499,400. The subject is a model home and highly upgraded. Based on the comparables sales under contract the subject is estimated to be \$480,000.

Plan Two is from \$515,955 to \$544,955. The subject is a model home and highly upgraded. Based on the comparable sales under contract the subject is estimated to be \$510,000.

Plan Three is from \$483,355 to \$557,120. The subject is a model home and highly upgraded. Based on the comparables sales under contract the subject is estimated to be \$530,000.

The project has an absorption rate of 2.17 units per week and has 29 of the 75 units under contract.

I have estimated that these 9 units would be absorbed within 4 months. Discounting the total of \$4,625,000 at 12% for 4 months for risk and time value of money results in a bulk value of \$3,970,250, say \$3,970,000.

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete.

There are four different lot sizes within this planning area.

Sandbridge consists of 5,775 square foot lots. There are 52 homes under construction and 12 finished lots for a total of 64 finished lots and 30 mass graded lots.

In valuing the subject lots, a finished lot value will be determined using comparable sales. The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4,000 to 6000 SF) and placed in the Addenda of this report. Data No. 31 represents the subject sale, while Data No. 32 is also located in the Talega development. Data Nos. 28 through 30 are also helpful and are located in the competing Ladera masterplanned development.

After taking the above into consideration, I have concluded at a finished lot value of \$200,000. This calculates as follows:

$64 \log x $200,000/lot = $12,800,000$

The 30 mass graded lots require in-tract costs. Based on estimates by The Moote Group an estimated \$30,000 per lot is required to have these lots in a finished lot condition. This will be deducted from the finished lots estimates of \$200,000 to arrive at a value for the mass graded lots.

30 lots x \$170,000/lot = \$5,100,000

The total value for the lots for Sandbridge is \$17,900,000.

Seagarden is an attached product with a density factor of 8.0 dwelling units per acre. The sales for the most helpful for this are the market data from Residential Lot Sales (2000 - 4000 SF) with the

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emphasis on Data Nos. 27 through 31. I have concluded at \$125,000 for the finished lots. There are 35 homes under construction that are classified as a finished lots and 3 lots used as a parking lot which are also considered to be finished lots.

38 finished lots x \$125,000= \$4,750,000

All 35 permits have been issued for this project.

Waterleaf at Talega Galfery consists of 4,750 square foot lots. I have considered the market data from Residential Lots Sales (4000 to 6000 SF) with the emphasis on Data Nos. 28 through 32 in arriving at \$175,000 per finished lot. There are 47 homes under construction and 25 finished lots for total of 72 finished lots.

72 lots x \$175,000/lot =\$12,600,000

All lots have had permits issued therefore all the value for Waterleaf is Developed Property.

Mass Graded Lots (No Product Designated)

There are 70 lots that are mass graded that have no product designated for them at this time. These lots are 4,500 square feet. In valuing the subject lots, a finished lot value will be determined using comparable sales. The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4,000 to 6000 SF) and placed in the Addenda of this report. Data No. 32 is located in the Talega development. Data Nos. 28 through 30 are also helpful located in the competing Ladera masterplanned development. I have concluded at \$175,000 for these lots.

The Moote Group estimated the costs to complete similar sized lots at \$26,700 and this should be deducted from the finished lot estimate to arrive at an estimate of value for the mass graded condition.

\$175,000 - \$26,700 = \$148,300 70 lots x \$148,300 = \$10,381,000

				11000	General	1 1 1
Development Phase Master Developer Cost	Total Backbone Cost	Development Cost	Total Development	backbone Costs Completed	Development Costs Completed	Adjustea Development Budget
	Budget (a)	Budget (c), (d)	Budget	as of 7/01/01	as of 7/01/01(f)	as of 7/01/01
Phase 1 - Catellus - Planning						
Areas 1-D/E & 1-F/G	11,027,075 (b)	0	11,027,075	(11,027,075) (e)	0	0
Phase 1 - Standard Pacific						
Planning Areas 1-H/I & 1-J	11,895,875 (b)		11,895,875	(11,895,875) (e)	0	0
Total Phase 1	22,922,950	0	22,922,950	(22,922,950)	0	0
Phase 2A - Lennar						
Planning Areas 2-F & 2-1	7.675.935 (b)	0	7.675.935	(7.508.414) (e)	0	167.521
Phase 2A - Shea						1
Planning Area 2-G	9,157,923 (b)	0	9,157,923	(8,958,058) (e)	0	199,865
Phase 2A - Lyon						
Planning Area 2-H	6,117,948 (b)	0	6,117,948	(5,984,429) (e)	0	133,519
Phase 2A - Woodbridge						
Planning Area 2-B	1,975,983 (b)	0	1,975,983	(1,932,859) (e)	0	43,124
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8a 2-C	18,923,840 (b)		* * *** 21,356,415	(18,510,842) (6)		A. C.
Total Phase 2A	43,851,629	2,432,575	46,284,204	(42,894,602)	(1,020,677)	2,368,925
Phase 2B - BHC						
Planning Area 2-M	4,763,225 (b)	0	4,763,225	(4,154,022) (e)	0	609,203
Phase 2B - Standard Pacific						
Planning Area 2-V	5,127,082 (b)	0	5,127,082	(4,471,343) (e)	0	655,739
Phase 2B - BHC-Planning Arrea 2-P	2,646,236 (b)	1,084,209	3,730,445	(2,307,790) (e)	(454,920)	967,735
Phase 2B - BRE-Planning Arrea 2-O	3,307,795 (b)	1,355,262	4,663,057	(2,884,738) (e)	(568,650)	1,209,669
Phase 2B - Standard Pacific						
Planning Area 2-Q			11,208,113	(7,009,912) (e)	(1,330,163)	2,868,038
Phase 2B - Lyon-Planning Area 2-R	7,144,837 (b)		10,072,202	(6,231,033) (e)	(1,228,284)	2,612,885
Phase 2B - BHC-Planning Area 2-S	5,457,861 (b)		7,578,378	(4,759,817) (e)	(889,741)	1,928,820
Total Phase 2B	36,484,977	10,657,525	47,142,502	(31,818,655)	(4,471,758)	10,852,089
Business Park - Others	5,235,497	1,431,156	6,666,653	(2,608,909)	(600,494)	3,457,250
Total Business Park	5,235,497	1,431,156	6,666,653	(2,608,909)	(600,494)	3,457,250
GRAND TOTAL	108,495,053	14,521,256	123,016,309	(100,245,116)	(6,092,929)	16,678,264

Footnotes located in Addenda of this report

This value is classified as Near Term Property since no permits have been issued.

Infrastructure

In addition the allocated cost for the remaining infrastructure costs is estimated at \$1,824,896

Summary

The results of the above analysis are detailed below.

Merchant Builder Homes	\$ 3,970,000
Sandbridge Total Land Value	\$17,900,000
Seagarden Finished Lot Value	\$ 4,750,000
Waterleaf Finished Lot Value	\$12,600,000
Mass-Graded Lots	\$10,381,000
Less Infrastructure Costs	(<u>\$ 1,824,896</u>)
"As Is" Value	\$47,776,104
	(Say) \$47,775,000

The Near Term Property of 30 mass graded lots in Sandbridge (\$5,100,000) and three finished lots in Seagarden (\$375,000) equals \$5,475,000. In addition there are 70 lots with no designated project (\$10,381,000). The total Near Term Property equals \$15,856,000. Subtraction of \$1,824,896 infrastructure cost equals \$14,031,104 (say) \$14,030,000 Near Term Property.

Final Value Conclusion

After taking into consideration the remaining in-tract costs and backbone infrastructure costs, the final value conclusion is estimated to be \$47,775,000.

PLANNING AREA 2-F ("CARMEL")

This planning area is located within Phase 2 and was purchased by Lennar Homes who recorded the transaction on December 28,1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 86 units and is being developed as an attached housing product. The homes under construction will be valued on a finished lot basis rather than to attribute value to a

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MONTH	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	TOTAL
INCOME: Retail Sales	\$1,105,000	\$1,105,000	\$1,105,000	\$1,105,000	\$1,105,000	\$1,105,000	\$6,630,000
TOTAL INCOME	\$1,105,000	\$1,105,000	\$1,105,000	\$1,105,000	\$1,105,000	\$1,105,000	\$6,630,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$44,200) (\$88,400)	(\$44,200) (\$88,400)	(\$44,200) (\$88,400)	(\$44,200) (\$88,400)	(\$44,200) (\$88,400)	(\$44,200) (\$88,400)	(\$265,200) (\$530,400)
TOTAL EXPENSES	(\$132,600)	(\$132,600)	(\$132,600)	(\$132,600)	(\$132,600)	(\$132,600)	(\$795,600)
NET CASH FLOW Discount Factor	\$972,400 0.9901	\$972,400 0.9803	\$972,400 0.9706	\$972,400 0.9610	\$972,400 0.9515	\$972,400 0.9420	\$5,834,400
DISCOUNTED CASH FLOW	\$962,772	\$953,240	\$943,802	\$934,457	\$925,205	\$916,045	\$5,635,521
CUMULATIVE DISCOUNTED	\$962,772	\$1,916,012	\$2,859,814	\$3,794,271	\$4,719,477	\$5,635,521	<u>\$5,635,521</u>

partially completed improvement. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Then, the retail value for the lots in a finished condition will be addressed. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 86 units there have been 68 recorded transactions through July 1, 2001. There are 18 complete units of which 4 are model homes. The balance is under construction which are considered to be finished lots.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans, which are detailed as follows.

<u>Plan</u>	Builder Units	Room Count	<u>Flrs/Garage</u>	<u>Sq. Ft.</u>
1	4	6-3-2	1/2-G	2,014
2	6	7-3-2	1/2-G	2,043
3	8	6-2-2.75	2/2-G	2,380

There have been 12 recorded transactions for Plan 1 that ranged from \$295,995 to \$458,940. The average price for these sales is \$371,455 and the median price is \$357,805. I have concluded at \$360,000 for this model.

4 units x
$$$360,000/unit = $1,440,000$$

There have been 25 recorded transactions for Plan 2 that ranged from \$273,220 to \$464,589 with an average price of \$370,196 and a median price of \$358,940. I have concluded at \$365,000 for this model.

6 units x
$$$365,000/unit = $2,190,000$$

TALEGA VALLEY DEVELOPMENT COST SUMMARY

Adjusted Development Budget	as of 7/01/01		0	199,865	133,519	43,124	1,824,896	609 203	655,739 967,735 1,209,669	2,868,038 2,612,885 1,928,820	3,457,250	16,678,264
General Development Costs Conjected	as of 7/01/01(f)	0		0	0	0	(1,020,677)	0	0 (454,920) (568,650)	(1,330,163) (1,228,284) (889,741) (4,471,758)	(600,494)	(6,092,929)
	(e)	(e)	(0)	(e)	(e)	(e)	(e)	(e)	(e) (e)	(e) (e)		
Backbone Costs Completed	(11,027,075) (e)	(11,895,875)	(7,508,414) (6)	(a) (8;958,058)	(5,984,429)	(1,932,859)	(18,510,842) (42,894,602)	(4,154,022) (e)	(4,471,343) (2,307,790) (2,884,738)	(7,009,912) (6,231,033) (4,759,817) (31,818,655)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875		9,157,923	6,117,948	1,975,983	21,356,415	4,763,225	5,127,082 3,730,445 4,663,057	11,208,113 10,072,202 7,578,378 47,142,502	6,666,653	123,016,309
Total General Development Cost Budget (c), (d)	0	0		0	0	0	2,432,575	0	0 1,084,209 1,355,262	3,170,172 2,927,365 2,120,517 10,657,525	1,431,156 1,431,156	14,521,256
	(Q)	(a)	(9)	(2)	(Q)	(p	②	(555	399		
Total Backbone Cost Budget (a)	11,027,075	11,895,875	7,975,935 (6)	9,157,923	6,117,948	1,975,983	18,923,840 43,851,629	4,763,225	5,127,082 2,646,236 3,307,795	8,037,941 7,144,837 5,457,861 36,484,977	5,235,497	108,495,053
Development Phase Master Developer Cost	Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H/I & 1-J Total Phase 1	Phase 2A - Lennar Phase 2A - Sheas 2-F & 2-1 Phase 2A - Shea	Planning Area 2-G Phase 2A - Lyon	Planning Area 2-H Phase 2A - Woodbridge	Planning Area 2-B Phase 2A - Standard Pac/CRG	Planning Area 2-C Total Phase 2A	Phase 2B - BHC Planning Area 2-M Phase 2B - Standard Pacific	Planning Area 2-V Phase 2B - BHC-Planning Arrea 2-P Phase 2B - BRE-Planning Arrea 2-O Phase 2B - Standard Pacific	Planning Area 2-Q Phase 2B - Lyon-Planning Area 2-R Phase 2B - BHC-Planning Area 2-S Total Phase 2B	Business Park - Others Total Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

There have been 31 recorded transactions for Plan 3 that ranged in price from \$320,295 to \$496,830. The average price was \$378,024 and the median price was \$353,885. I have concluded at \$400,000 for this model.

8 units x \$400,000/unit = \$3,200,000

I have estimated that these 18 units would be absorbed within the 6 months. Discounting the total of \$6,630,000 at 12% for 6 months for risk and time value of money results in a bulk value of \$5,635,521, say \$5,635,000.

Cost to Complete

While the lots are considered to be in a finished lot condition there is additional infrastructure costs that remain to be completed. Please refer to the facing page in which this planning area as well as Planning Area 2-I has a total of \$167,521. Allocating this infrastructure costs on a per acre basis for the total tracts (59%) results in a cost of \$98,837, say \$100,000.

Value Conclusion

The conclusion for this planning area is as follows

 Merchant Builder Owned Homes
 \$ 5,635,000

 Less Backbone Costs
 (__100,000)

 Total Value
 \$ 5,535,000

All of the homes are complete and therefore these are classified as Developed Property.

PLANNING AREA 2-G ("SEASIDE")

This planning area is located within Phase 2 and was purchased by Shea Home who recorded the transaction on December 24,1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 140 lots that have a typical lot size of 4,000 sf. The homes under construction will be valued on a finished lot basis rather than to attribute value to a partially

SEASIDE

MONTH	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	TOTAL
INCOME: Retail Sales	\$955,833	\$955,833	\$955,833	\$955,833	\$955,833	\$955,833	\$5,735,000
TOTAL INCOME	\$955,833	\$955,833	\$955,833	\$955,833	\$955,833	\$955,833	\$5,735,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$38,233) (\$76,467)	(\$38,233) (\$76,467)	(\$38,233) (\$76,467)	(\$38,233) (\$76,46Z)	(\$38,233) (\$76,467)	(\$38,233) (\$76,467)	(\$229,400) (\$458,800)
TOTAL EXPENSES	(\$114,700)	(\$114,700)	(\$114,700)	(\$114,700)	(\$114,700)	(\$114,700)	(\$688,200)
NET CASH FLOW Discount Factor	\$841,133 0.9901	\$841,133 0.9803	\$841,133 0.9706	\$841,133 0.9610	\$841,133 0.9515	\$841,133 0.9420	\$5,046,800
DISCOUNTED CASH FLOW	\$832,805	\$824,560	\$816,396	\$808,313	\$800,310	\$792,386	\$4,874,768
CUMULATIVE DISCOUNTED CASH FLOW	\$832,805	\$1,657,365	\$2,473,761	\$3,282,073	\$4,082,383	\$4,874,768	\$4,874,768

completed improvement. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Then, the retail value for the lots in a finished condition will be addressed. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 140 lots there have been 100 recorded transactions through July 1, 2001. These will be addressed and valued in Section III of this report. The balance of the 40 lots is completed homes and finished lots.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans, which are detailed as follows.

<u>Plan</u>	Builder Units	Room Count	Flrs/Garage	Sq. Ft.
1	5	8-4-3	2/2.5-G	2,225
2	4	8-4-2.5	2/2.5-G	2,365
3	5	9-5-3	2/3-G	2,515

There have been 21 recorded transactions for Plan 1that range from \$348,080 to \$450,561. The average price for these transactions is \$391,999 and the median price is \$390,458. I have concluded at \$390,000 for this model.

5 units
$$x $390,000/unit = $1,950,000$$

There have been 38 recorded transactions that range from \$376,469 to \$485,123. The average price for these 38 recorded transactions is \$419,407 and the median price is \$410,424. I have concluded \$415,000 for this model.

4 units
$$x $415,000/unit = $1,660,000$$

Adjusted Development Budget as of 7/01/01	0	0	167,521	.398'66)	133,519	43,124	1,824,896 2,368,925	609,203	655,739 967,735 1,209,669	2,868,038 2,612,885 1,928,820	3,457,250	16,678,264
General Development Costs Completed as of 7/01/01(f)	0	0	0		0	0	(1,020,677)	0	0 (454,920) (568,650)	(1,330,163) (1,228,284) (889,741) (4,471,758)	(600,494)	(6,092,929)
	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e) (e) (e)	@ @ @		
Backbone Costs Completed as of 7/01/01	(11,027,075)	(11,895,875)	(7,508,414) (6)	(9) (850'856'028)	(5,984,429)	(1,932,859)	(18,510,842)	(4,154,022) (e)	(4,471,343) (2,307,790) (2,884,738)	(7,009,912) (6,231,033) (4,759,817) (31,818,655)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	21,356,415 46,284,204	4,763,225	5,127,082 3,730,445 4,663,057	11,208,113 10,072,202 7,578,378 47,142,502	6,666,653	123,016,309
Total General Development Cost Budget (c), (d)	0	0	0		0	0	2,432,575 2,432,575	0	0 1,084,209 1,355,262	3,170,172 2,927,365 2,120,517 10,657,525	1,431,156	14,521,256
- I	(Q)	(a)	(Q)	e	(p)	(Q)	9	(Q)	999	9 <u>9</u> 9	,	
Total Backbone Cost Budget (a)	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923 (6)	6,117,948 (b)	1,975,983 (b)	18,923,840 43,851,629	4,763,225 (b)	5,127,082 2,646,236 3,307,795	8,037,941 7,144,837 5,457,861 36,484,977	5,235,497	108,495,053
Development Phase Master Developer Cost Phase 1 - Catellus - Planning	Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H/I & 1-J Total Phase 1	Phase 2A - Lennar Planning Areas 2-F & 2-1 Phase 2A - Shea	Phase 2A - Lyon	Planning Area 2-H Phase 2A - Woodbridge	Planning Area 2-B Phase 2A - Standard Pac/CRG	Planning Area 2-C Total Phase 2A	Phase 2B - BHC Planning Area 2-M Phase 2B - Standard Pacific	Planning Area 2-V Phase 2B - BHC-Planning Arrea 2-P Phase 2B - BRE-Planning Arrea 2-O Phase 2B - Standard Pacific	Planning Area 2-Q Phase 2B - Lyon-Planning Area 2-R Phase 2B - BHC-Planning Area 2-S Total Phase 2B	Business Park - Others Total Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

SOLANA

MONTH	MONTH 1	MONTH 2	MONTH 3	MONTH 4	TOTAL
INCOME: Retail Sales	\$1,002,750	\$1,002,750	\$1,002,750	\$1,002,750	\$4,011,000
TOTAL INCOME	\$1,002,750	\$1,002,750	\$1,002,750	\$1,002,750	\$4,011,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$40,110) (\$80,220)	(\$40,110) (\$80,220)	(\$40,110) (\$80,220)	(\$40,110) (\$80,220)	(\$160,440) (\$320,880)
TOTAL EXPENSES	(\$120,330)	(\$120,330)	(\$120,330)	(\$120,330)	(\$481,320)
NET CASH FLOW Discount Factor	\$882,420 0.9901	\$882,420 0.9803	\$882,420 0.9706	\$882,420 0.9610	\$3,529,680
DISCOUNTED CASH FLOW	\$873,683	\$865,033	\$856,468	\$847,988	\$3,443,172
CUMULATIVE DISCOUNTED CASH FLOW	\$873,683	\$1,738,716	\$2,595,184	\$3,443,172	\$3,443,172

There have been 41 recorded transactions for Plan 3 that ranged from \$389,116 to \$512,651. The average sales price for these 41 transactions is \$426,430 and the median price is \$416,378. I have concluded \$425,000 for this model.

5 units x \$425,000/uinit = \$2,125,000

I have estimated that these 14 units will be absorbed within the next 6 months. Discounting the total of \$5,735,000 at 12% for 6 months for risk and time value of money results in a bulk value of \$4,874,768, say \$4,875,000.

Finished Lot Valuation

There are 26 homes under construction which are valued as finished lots. I have considered the market data from Residential Lots Sales (4000 to 6000 SF) with the emphasis on Data Nos. 28 through 32 in arriving at \$160,000 per finished lot.

26 finished lots x \$160,000/lot = \$4,160,000

Cost to Complete

While the lots are considered to be in a finished lot condition there is additional infrastructure costs that remain to be completed. Please refer to the facing page in which this planning area has a total of \$199,865.

Value Conclusion

The conclusion for this planning area is as follows.

\$ 4,875,000	4,160,000	\$ 9,035,000	(199,865)	\$ 8,835,135	(Say) \$ 8,835,000
Merchant Builder Owned Homes	Finished Lot Value	Subtotal	Less Backbone Costs	Total Value	9

93

The value is reported as Developed Property since the reported values are either completed homes or homes under construction.

PLANNING AREA 2-H ("SOLANA")

This planning area is located within Phase 2 and was purchased by Lyon Development who recorded the transaction on December 18,1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 120 lots that have a typical lot size of 3,375 sf. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 120 lots there have been 108 recorded transactions through July 1, 2001. These recorded transactions will be addressed and valued in Section III of this report. The balance of the 12 lots is completed homes.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans, which are detailed as follows:

Sq. Ft.	1,676	1,776	2,097
Flrs/Garage	2/2-G	2/2-G	2/2-G
Room Count	6-3-2.5	7-4-2.5	9-5-3
Builder Units	3	4	8
Plan	-	2	3

There have been 30 recorded transactions for Plan 1 that range from \$284,990 to \$348,518. The average price for these recorded transactions is \$307,536 and the median price is \$307,097. I have concluded \$307,000 for this model.

3 units x \$307,000/unit = \$921,000

Adjusted Development Budget as of 7/01/01	0	0	167,521	199,865	133,519	43,124	1,824,896	609,203	655,739	967,735		2,868,038	1,928,820	10,852,089	3 457 250	3,457,250	16,678,264
General Development Costs Completed as of 7/01/01(f)	0	0	0	0		0	(1,020,677)	0	0	(454,920) (568,650)	(4 220 402)	(1,330,163)	(889,741)	(4,471,758)	(600 494)	(600,494)	(6,092,929)
	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	3	(a)	(e)			,	
Backbone Costs Completed as of 7/01/01	(11,027,075) (e)	(11,895,875)	(7,508,414) (e)	(9) (8'028'028)	(5,984,429) (6)	(1,932,859)	(18,510,842) (42,894,602)	(4,154,022) (e)		(2,307,790) (2,884,738)	72 000 042)			(31,818,655)	(2,608,909)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	21,356,415 46,284,204	4,763,225	5,127,082	3,730,445 4,663,057	11 208 113	10.072.202	7,578,378	47,142,502	6,666,653	6,666,653	123,016,309
Total General Development Cost Budget (c), (d)	0	0	0	0	O Section 19	0	2,432,575 2,432,575	0	0	1,084,209 1,355,262	3.170.172	2,927,365	2,120,517	10,657,525	1,431,156	1,431,156	14,521,256
ļ	(Q)	(g) -	(p	(q)	(Q)	(p)	(a)	(p)	(q)	<u> </u>	(p)	(<u>a</u>	ا (ع)		!		
Total Backbone Cost Budget (a)	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923 (b)	6,117,948 (b)	1,975,983 (b)	18,923,840 (b) 43,851,629	4,763,225 (b)	5,127,082	2,646,236 3,307,795	8,037,941	7,144,837	5,457,861	36,484,977	5,235,497	5,235,497	108,495,053
Development Phase Master Developer Cost	Phase 1 - Catellus - Planning Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H/I & 1-J	Phase 2A - Lennar Planning Areas 2-F & 2-1 Phase 2A - Shea	Planning Area 2-G Phase 2A - Lvon	Planning Area 2-H Phase 2A - Woodbridge	Planning Area 2-B Phase 2A - Standard Pac/CRG	Planning Area 2-C Total Phase 2A	Phase 2B - BHC Planning Area 2-M Phase 2B - Standard Pacific	Planning Area 2-V	Phase 2B - BRE-Planning Arrea 2-0	Finase 25 - Standard Pacific Planning Area 2-Q	Phase 2B - Lyon-Planning Area 2-R	Phase 2B - BHC-Planning Area 2-S	lotal Filase ZB	Business Park - Others	Total Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

There have been 37 recorded transactions that range from \$301,990 to \$443,490. The average price for these recorded transactions is \$336,984 and the median price is \$336,224. I have concluded \$335,000 for this model.

4 units x
$$$335,000/unit = $1,340,000$$

There have been 41 recorded transactions that range from \$247,779 to \$404,990. The average sales price for these 41 transactions is \$353,213 and the median price is \$354,558. I have concluded \$350,000 for this model.

5 units x
$$$350,000/unit = $1,750,000$$

I have estimated that these 12 units will be absorbed within the next six months. Discounting the total of \$4,011,000 at 12% for three months for risk and time value of money results in a bulk value of \$3,443,172, say \$3,445,000.

Cost to Complete

While the lots are considered to be in a finished lot condition there is additional infrastructure costs that remain to be completed. Please refer to the facing page in which this planning area has a total of \$133,519.

Value Conclusion

The conclusion for this planning area is as follows.

Merchant Builder Owned Homes	\$3,445,000
Less Backbone Costs	(\$ 133,519)
Total Value	\$3,311,481
(Say)	\$3,311,000

This is classified as Developed Property.

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TRINIDAD	

MONTH	MONTH 1	MONTH 2	MONTH 3	MONTH 4	TOTAL
INCOME: Retail Sales	\$498,750	\$498,750	\$498,750	\$498,750	\$1,995,000
TOTAL INCOME	\$498,750	\$498,750	\$498,750	\$498,750	\$1,995,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$19,950) (\$39,900)	(\$19,950) (\$39,900)	(\$19,950) (\$39,900)	(\$19,950) (\$39,900)	(\$79,800) (\$159,600)
TOTAL EXPENSES	(\$59,850)	(\$59,850)	(\$59,850)	(\$59,850)	(\$239,400)
NET CASH FLOW Discount Factor	\$438,900 0.9901	\$438,900 0.9803	\$438,900 0.9706	\$438,900 0.9 <u>610</u>	\$1,755,600
DISCOUNTED CASH FLOW	\$434,554	\$430,252	\$425,992	\$421,774	\$1,712,573
CUMULATIVE DISCOUNTED CASH FLOW	\$434,554	\$864,806	\$1,290,798	\$1,712,573	\$1,712,573

PLANNING AREA 2-I ("TRINIDAD")

This planning area is located within Phase 2 and was purchased by Lennar Homes who recorded the transaction on December 28,1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 105 units that are being developed as an attached housing product. The homes under construction will be valued on a finished lot basis rather than to attribute value to a partially completed improvement. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Then, the retail value for the lots in a finished condition will be addressed. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 105 units there have been 91 recorded transactions through July 1, 2001.

Existing Home Valuation via Sales Comparison Approach

There are three floor plans, which are detailed as follows.

<u>Plan</u>	Builder Units	Room Count	Flrs/Garage	<u>Sq. Ft.</u>
1	2	6-2-2	1/2-G	1,367
2	3	6-3-2	1/2 - G	1,624
3	3	6-3-2.75	1/2-G	1,678

There have been 27 recorded transactions for Plan 1 which ranged from \$191,288 to \$274,475. The average price being \$222,624 and the median price being \$223,219. I have concluded at \$225,000 for this model.

2 units
$$x $225,000/unit = $450,000$$

There have been 29 recorded transactions for Plan 2 which ranged from \$221,000 to \$282,195 with an average price of \$247,219 and the median price of \$250,085. I have concluded at \$245,000 for this model.

3 units x
$$$245,000/unit = $735,000$$

Adjusted Development Budget as of 7/01/01	0	0	1729791355	199,865	133,519	43,124	1,824,896 2,368,925	609,203	655,739	967,735 1,209,669	2.868.038	2,612,885	1,928,820	10,852,089	3,457,250	3,457,250	16,678,264
General Development Costs Completed as of 7/01/01(f)	0	0		0	0	0	(1,020,677)	0	0	(454,920) (568,650)	(1,330,163)	(1,228,284)	(889,741)	(4,471,758)	(600,494)	(600,494)	(6,092,929)
Backbone Costs Completed as of 7/01/01	(11,027,075) (e)	(11,895, <u>875)</u> (e) (22,922,950)	7,675,935 (b) (7,508,414) (e) (e) (7,675,935 (b) (c) (7,508,414) (e) (c)	(8,958,058) (e)	(5,984,429) (e)	(1,932,859) (e)	(18,510,842) (e) (42,894,602)	(4,154,022) (e)	_	(2,307,790) (e) (2,884,738) (e)	(7.009.912) (6)			(31,818,655)	(2,608,909)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875 22,922,950	F 7,675,935	9,157,923	6,117,948	1,975,983	21,356,415	4,763,225	5,127,082	3,730,445 4,663,057	11,208,113	10,072,202	7,578,378	47,142,502	6,666,653	6,666,653	123,016,309
Total General Development Cost Budget (c). (d)	0	0	0,000	0	0	0	2,432,575	0	0	1,084,209 1,355,262	3,170,172	2,927,365	2,120,517	10,657,525	1,431,156	1,431,156	14,521,256
Total Backbone Cost Budget (a)	11,027,075 (b)	11,895,875 (b) 22,922,950	7,675,935 (b)	9,157,923 (b)	6,117,948 (b)	1,975,983 (b)	18,923,840 (b) 43,851,629	4,763,225 (b)		2,646,236 (b) 3,307,795 (b)	8,037,941 (b)		5,457,861 (b)	36,484,977	5,235,497	5,235,497	108,495,053
Development Phase Master Developer Cost	Phase 1 - Catellus - Planning Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H/I & 1-J	Phase 2A - Lennar Planning Areas 2-F & 2-1 Phase 2A - Shea	Planning Area 2-G Phase 2A - I von	Planning Area 2-H	Planning Area 2-8 Phase 24 - Standard PaciffRG	Planning Area 2-C Total Phase 2A	Phase 2B - BHC Planning Area 2-M Phase 2B - Slandard Pacific	Planning Area 2-V	Phase 2B - BHC-Planning Afrea 2-P Phase 2B - BRE-Planning Afrea 2-O	Phase 2B - Standard Pacific Planning Area 2-Q	Phase 2B - Lyon-Planning Area 2-R	Phase 28 - BHC-Planning Area 2-S	Total Phase 2B	Business Park - Others	Total Business Park	GRAND TOTAL

There have been 28 recorded transactions for Plan 3 which ranged from \$242,075 to \$304,000 with an average price of \$268,803 and a median price of \$269,593. I have concluded \$270,000 for this model.

3 units x
$$270,000/unit = 810,000$$

I have estimated that these 8 units would be absorbed within 4 months. Discounting the total of \$1,995,000 at 12% for 4 months for risk and time value of money results in a bulk value of \$1,712,573 say \$1,710,000.

Finished Lot Valuation

There are 6 units under construction that are considered as finished lots. I have considered the market data from Residential Lots Sales (2000 to 4000 SF) with the emphasis on Data Nos. 24, 27 and 28. I have concluded at \$110,000 per finished lot.

6 finished lots x
$$$110,000/lot = $660,000$$

Cost to Complete

While the lots are considered to be in a finished lot condition there is additional infrastructure costs that remain to be completed. Please refer to the facing page in which this planning area as well as Planning Area 2-F has a total of \$167,521. Allocating this infrastructure costs on a per acre basis for the total tracts (41%) results in a cost of \$68,684; (say) \$70,000.

Value Conclusion

The conclusion for this planning area is shown below.

Merchant Builder Owned Homes	\$ 1,710,000
Finished Lot Value	\$ 660,000
Subtotal	\$ 2,370,000
Less Backbone Costs	(\$ 70,000)
Total Value	\$ 2,300,000
(Say)	\$ 2,300,000

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MONTH	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	TOTAL
INCOME: Retail Sales	\$1,238,333	\$1,238,333	\$1,238,333	\$1,238,333	\$1,238,333	\$1,238,333	\$7,430,000
TOTAL INCOME	\$1,238,333	\$1,238,333	\$1,238,333	\$1,238,333	\$1,238,333	\$1,238,333	\$7,430,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$49,533) (\$99,067)	(\$49,533) (\$99,06Z)	(\$49,533) (\$99,067)	(\$49,533) (\$99,067)	(\$49,533) (\$99,06Z)	(\$49,533) (\$99,067)	(\$297,200) (\$594,400)
TOTAL EXPENSES	(\$148,600)	(\$148,600)	(\$148,600)	(\$148,600)	(\$148,600)	(\$148,600)	(\$891,600)
NET CASH FLOW Discount Factor	\$1,089,733 0,9901	\$1,089,733 0.9803	\$1,089,733 0.9706	\$1,089,733 0,9610	\$1,089,733 0.9515	\$1,089,733 0.9420	\$6,538,400
DISCOUNTED CASH FLOW	\$1,078,944	\$1,068,261	\$1,057,684	\$1,047,212	\$1,036,844	\$1,026,578	\$6,315,524
CUMULATIVE DISCOUNTED CASH FLOW	\$1,078,944	\$2,147,205	\$3,204,890	\$4,252,102	\$5,288,946	\$6,315,524	\$6,315,524

FARRALON RIDGE

These are classified as Developed Property.

PLANNING AREAS 2-M & P ("FARRALON RIDGE")

This planning area is located within Phase 2 and was purchased by BHC who recorded the transaction on May 2, 2000. The land acquisition is discussed in the Sales History section of this report. This project consists of 132 units that are being developed as an detached housing product. The homes under construction will be valued on a finished lot basis rather than to attribute value to a partially completed improvement. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Then, the retail value for the lots in a finished condition will be addressed. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 132 units there have been 12 recorded transactions through July 1, 2001.

Existing Home Valuation

There are three floor plans, which are detailed as follows.

Sq. Ft.	1,871	2,020	2,344
Flrs/Garage	2-/2-G	2/2-G	2/2-G
Room Count	6-2-2	6-3-2	6-3-2.75
Builder Units	9	4	∞
Plan	-	7	3

There have been 4 recorded transactions for Plan 1 which ranged from \$369,990 to \$452,354. The average price being \$413,719 and the median price being \$416,265. I have concluded at \$405,000 for this model.

6 units x \$405,000/unit = \$2,430,000

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There have been 4 recorded transactions for Plan 2 which ranged from \$381,102 to \$442,990 with an average price of \$404,452 and the median price of \$396,858. I have concluded at \$410,000 for this model.

4 units x \$410,000/unit = \$1,640,000

There have been 4 recorded transactions for Plan 3 which ranged from \$380,265 to \$481,210 with an average price of \$424,428 and a median price of \$417,939. I have concluded \$420,000 for this model

8 units x \$420,000/unit = \$3,360,000

I have estimated that these 18 units would be absorbed within 6 months. Discounting the total of \$7,430,000 at 12% for 6 months for risk and time value of money results in a bulk value of \$6,315,524, say \$6,315,000.

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete for the blue top lots.

The sales that are most helpful have been summarized in chart form (Residential Lot Sales -2000 to 4000 SF), which has been placed in the Addenda of this report. Data No. 17 represents the subject sale, while Data Nos. 18 and 26 are also located in the Talega development. Data No. 26 is a most recent transaction just north of the subject. Emphasis is given to these sales, Data Nos. 27 through 31 are also helpful and are located in the competing Ladera masterplanned development (Phase III).

After taking the above into consideration, I have concluded at a finished lot value of \$135,000 for 27 lots. In addition there is 28 homes under construction which are being treated as finished lots. This calculates as follows:

55 lots x \$135,000/lot = \$7,425,000

Adjusted Development Budget as of 7/01/01	0	0	167,521	199,865	133,519	43,124	1,824,896	2,368,925	609,203	655,739 967,735 1,209,669	2,868,038	1,928,820	3 457 250	3,457,250	16,678,264
General Development Costs Completed as of 7/01/01(f)	0	0	0	0	0	0	(1,020,677)	(1,020,677)	0	0 (454,920) (568,650)	(1,330,163)	(889,741)	(600,494)	(600,494)	(6,092,929)
	(e)	(e)	(e)	(e)	(e)	(e)	(e)		(0)	(a) (b) (a)	(e)	(e)			
Backbone Costs Completed as of 7/01/01	(11,027,075)	(11,895,875)	(7,508,414) (e)	(8,958,058)	(5,984,429)	(1,932,859)	(18,510,842)	(42,634,002)	(4,154,022) (e)	(4,471,343) (2,307,790) (2,884,738)	(7,009,912) (6,231,033)	(4,759,817)	(2,608,909)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	21,356,415	10,101,201	4,763,225	5,127,082 3,730,445 4,663,057	11,208,113 10,072,202	7,578,378	6,666,653	6,666,653	123,016,309
Total General Development Cost Budget (c), (d)	0	0	0	0	0	0	2,432,575		o	0 1,084,209 1,355,262	3,170,172 2,927,365	2,120,517 10,657,525	1,431,156	1,431,156	14,521,256
'	(p)	(a) _	(p)	(p	(p)	(p)	(q) -		(99	99	(<u>a)</u>	,		
Total Backbone Cost Budget (a)	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	18,923,840 (b) 43,851,629		4,763,225	5,127,082 2,646,236 3,307,795	8,037,941 7,144,837	5,457,861 36,484,977	5,235,497	5,235,497	108,495,053
Development Phase Master Developer Cost Phase 1 - Catellus - Planning	Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H// & 1-J Total Phase 1	Phase 2A - Lennar Planning Areas 2-F & 2-1 Phase 2A - Shea	Planning Area 2-G Phase 2A - Lyon	Planning Area 2-H Phase 2A - Woodbridge	Planning Area 2-B Phase 2A - Standard Pac/CRG	Planning Area 2-C Total Phase 2A		Phase 2B - BHC Planning Area 2-M Phase 2B - Standard Pacific	Planning Area 2-V Phase 2B - BHC-Planning Arrea 2-P Phase 2B - BRE-Planning Arrea 2-O Phase 2B - Standard Pacific	Planning Area 2-Q Phase 2B - Lyon-Planning Area 2-R	Total Phase 2B	Business Park - Others	lotal Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

Cost to Complete to a Finished Lot

I have reviewed both in-tract costs as well as the remaining backbone costs infrastructure for the development. The in-tract estimates were completed by The Moote Group. These costs have been estimated at \$26,950 per unit. The builder has expended approximately \$187,734 in costs for in tracts since acquisition of the property

Blue Top Lots

	(Say) \$ 5,266,000
Value	\$5,266,084
Plus In-tracts	\$ 187,734
Less Costs (47 lots x \$26,950/lot)	(<u>1,266,650</u>)
47 lots x \$135,000/lot	\$6,345,000

Value Conclusion

There have been 85 building permits issued on this project. Twelve of these permits would be for the recorded transactions which are valued in Section III, therefore there are 73 permits that are considered in this analysis as Developed Property. This indicates there are 47 lots classified as a Near Term property. The total values are allocated as follows.

Developed Property (PA 2-P) Less Infrastructure Allocated Subtotal	\$13,740,524 (<u>967,735</u>)	(Say)	\$12,772,789 \$12,770,000
Near Term Property (PA 2-M) Less Infrastructure Allocated Subtotal	\$ 5,266,000 (<u>609,203</u>)	(Say)	\$ 4,656,797 \$ 4,656,000
Total Value		(Sav)	\$17,429,586 \$17,430,000

PLANNING AREA 2-O

This planning area consists of 252 units, which will be developed as an apartment complex. It is owned by Bre Properties Inc. The product type is classified as "apartment complex" with a density factor of 25 dwelling units per acre.

Adjusted Development Budget	0	0	167,521	199,865	133,519	43,124	1,824,896 2,368,925	609,203	655,739 967,735 1, 209,669	2,868,038	2,612,885 1 928 820	10,852,089	3 457 250	3,457,250	16,678,264
General Development Costs Completed as of 7/01/01(t)	0	0	0	0	0	0	(1,020,677)	0	0 (454,920) (568,650)	(1,330,163)	(1,228,284)	(4,471,758)	(600 494)	(600,494)	(6,092,929)
a 50	(e) (c)	(e) (o) (o)	(4) (e)	(e) (g	(e) (6	(e) (6)	(2) (e)	(2) (e)	(3) (e) (0) (e) (e)		(e) (e) (e)		6)	6	(9
Backbone Costs Completed as of 7/01/01	(11,027,075)	(11,895,875)	(7,508,414) (e)	(8,958,058)	(5,984,429)	(1,932,859)	(18,510,842) (42,894,602)	(4,154,022) (e)	(4,471,343) (2,307,790) (2,884,738)	(7,009,912)	(6,231,033) (4,759,817)	(31,818,655)	(2,608,909)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	21,356,415 46,284,204	4,763,225	5,127,082 3,730,445 4,663,057	11,208,113	7,578,378	47,142,502	6,666,653	6,666,653	123,016,309
Total General Development Cost Budget (c), (d)	0	0	0	0	0	0	2,432,575	0	0 1,084,209 1,355,262	3,170,172	2,120,517	10,657,525	1,431,156	1,431,156	14,521,256
. 1	5 (b)	(b) -0	5 (b)	3 (b)	(p)	3 (b)	(a) (b)	(p)	(2) (2) (2) (3) (4) (4) (4) (4) (4) (4) (4) (4) (4) (4	(a) (4)	- 1	_	_		_
Total Backbone Cost Budget (a)	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	18,923,840 43,851,629	4,763,225	5,127,082 2,646,236 3,307,795	8,037,941	5,457,861	36,484,977	5,235,497	5,235,497	108,495,053
Development Phase Master Developer Cost	Phase 1 - Catellus - Planning Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H/I & 1-J Total Phase 1	Phase 2A - Lennar Planning Areas 2-F & 2-1 Phase 2A - Shea	Planning Area 2-G Phase 2A - Lyon	Planning Area 2-H Phase 2A - Woodbridge	Planning Area 2-8 Phase 2A - Standard Pac/CRG	Planning Area 2-C Total Phase 2A	Phase 2B - BHC Planning Area 2-M Phase 2B - Standard Pacific	Planning Area 2-V Phase 2B - BHC-Planning Arrea 2-P Phase 2B - BRE-Planning Arrea 2-O Phase 2B - Standard Pacific	Planning Area 2-Q Phase 2B - Lyon-Planning Area 2-R	Phase 2B - BHC-Planning Area 2-S	l otal Phase 28	Business Park - Others	lotal Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

Finished Lot Value

In valuing the subject lots, a mass graded condition value will be determined followed by a deduction for the remaining costs to complete.

The sales that are most helpful have been summarized in chart form as Residential Lot Sales (Attached Residential Product) and placed in the Addenda of this report. Data No. 9 represents the subject sale. Data Nos. 1, 2, 6 and 14 are also helpful.

After taking the above into consideration, I have concluded at a mass graded value of \$45,000 per unit. This calculates as follows:

252 units x
$$$45,500/unit = $11,466,000$$

Cost to Complete

I have reviewed the remaining backbone costs infrastructure for the development. The allocated cost for the remaining infrastructure is estimated at \$1,209,669.

The results of the above analysis are detailed below.

Mass Graded Value \$11,446,000 Less Infrastructure Costs (\$1,209,669)

"As Is" Value \$ 10,236,331 (Say) \$ 10,235,000

This is classified as Near Term Property.

Value Conclusion

After taking into consideration the remaining backbone infrastructure costs, the final value conclusion for this planning area is estimated to be \$10,235,000 (rounded). This is classified as near term property.

PACIFICA SUMMIT

MONTH	MONTH 1	MONTH 2	TOTAL
INCOME: Retail Sales	\$7,212,500	\$7,212,500	\$14,425,000
TOTAL INCOME	\$7,212,500	\$7.212.500	\$14,425,000
EXPENSES: Marketing & Carrying Expenses Profit	(\$288,500) (\$577,000)	(\$288,500) (\$577,000)	(\$577,000) (\$1,154,000)
TOTAL EXPENSES	(\$865,500)	(\$865,500)	(\$1,731,000)
NET CASH FLOW Discount Factor	\$6,347,000 0.9901	\$6,347,000 0.9803	\$12,694,000
DISCOUNTED CASH FLOW	\$6,284,158	\$6,221,939	\$12,506,097
CUMULATIVE DISCOUNTED CASH FLOW	\$6,284,158	\$12,506,097	\$12,506,097

PLANNING AREA 2-V ("PACIFICA SUMMIT")

This planning area is located within Phase 2 and was purchased by Standard Pacific Homes who recorded the transaction on July 5, 2000. The land acquisition is discussed in the Sales History section of this report. This project consists of 61 lots that have a typical lot size of 6,300 sf. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 61 lots there have been no recorded transactions through July 1, 2001. The status of the project as of July 1 was 18 completed homes, 36 homes under construction, and 7 finished lots.

Existing Home Valuation via Sales Comparison Approach

There are six floor plans, which are detailed as follows:

Sq. Ft.	5,027 4.066	4,372	3,452	2,673	3,875
Firs/Garage	2/3-G	2/3-G	2/3-G	1/3-G	2/3-G
Room Count	9-4-9 5-4-9	9-5-4.5	9-5-3.5	7-3-2.5	9-5-4.5
Builder Units	r ~	5	2	_	4
<u>Plan</u>	7	3	4	4-1	S

While there have been no recorded transactions of Plan 1 as of the date of value there have been 11 sales under contract. These sales prices are from \$551,975 to \$756,600 with an average sales price of \$630,650 and a median sales price of \$631,155. I have concluded \$635,000 for Plan 1.

4 units x \$635,000/unit = \$2,540,000

While there have been no recorded transactions of Plan 2 as of the date of value there have been 9 sales under contract. These sales prices are from \$606,700 to \$812,200 with an average sales price of \$681,732 and a median sales price of \$675,430. I have concluded \$675,000 for Plan 2.

2 units x \$675,000/unit = \$1,350,000

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While there have been no recorded transactions of Plan 3 as of the date of value there have been 14 sales under contract. These sales prices are from \$653,300 to \$849,250 with an average sales price of \$743,962 and a median sales price of \$745,860. I have concluded \$745,000 for Plan 3.

5 units x \$745,000/unit = \$3,725,000

While there have been no recorded transactions of Plan 4 as of the date of value there have been 6 sales under contract. These sales prices are from \$562,000 to \$718,900 with an average sales price of \$651,261 and a median sales price of \$671,963. I have concluded \$660,000 for Plan 4.

5 units x \$660,000/unit = \$3,300,000

While there have been no recorded transactions of Plan 4-1 as of the date of value there have been 3 sales under contract. These sales prices are from \$555,900 to \$695,800 with an average sales price of \$643,898 and a median sales price of \$679,925. I have concluded \$650,000 for Plan 4-1.

1 unit x \$650,000/unit = \$650,000

While there have no recorded transaction of Plan 5 as of the date of value there has been 12 sales under contract. These sales prices are from \$627,100 to \$837,100 with an average sales price of \$716,301 and a median sales price of \$711,253. I have concluded \$715,000 for Plan 5.

4units x \$715,000/unit = \$2,860,000

I have estimated that these 18 units would be absorbed within 2 months. Discounting the total of \$14,425,000 at 12% for 2 months for risk and time value of money results in a bulk value of \$12,506,097 say, \$12,500,000.

TALEGA VALLEY DEVELOPMENT COST SUMMARY

		DEVELOP	DEVELOPMEN COST SUMMARY	2004/2000	General	Adinota
		l otal General	ŀ	Backbone	Development	Palendo
Development Phase	Total	Development	Cotat	COSIS	COSIS	Development
Master Developer Cost	Backbone Cost Budget (a)	Cost Budget (c), (d)	Development Budget	completed as of 7/01/01	Completed as of 7/01/01(f)	as of 7/01/01
Phase 1 - Catellus - Planning Areas 1-D/F & 1-F/G	11.027.075 (b)		11,027,075	(11,027,075) (e)	0	0
Phase 1 - Standard Pacific Planning Areas 1-H/I & 1-,1			11,895,875	(11,895,875) (e)	0	0
Total Phase 1	1	0	22,922,950	(22,922,950)	0	0
Phase 2A - Lennar						
Planning Areas 2-F & 2-1	7,675,935 (b)	0 (7,675,935	(7,508,414) (e)	0	167,521
Phase 2A - Shea Planning Area 2-G	9,157,923 (b)	0 (9,157,923	(8,958,058)	0	199,865
Phase 2A - Lyon Planning Area 2-H	6,117,948 (b)	0	6,117,948	(5,984,429) (e)	0	133,519
Phase 2A - Woodbridge Planning Area 2-B	1,975,983 (b)	0 (1,975,983	(1,932,859) (e)	0	43,124
Phase 2A - Standard Pac/CRG Planning Area 2-C	18,923,840 (b)		21,356,415	(18,510,842) (e)	(1,020,677)	1,824,896
Total Phase 2A		2,432,575	46,284,204	(42,894,602)	(1,020,677)	2,368,925
Phase 2B - BHC					c	
Planning Area 2-M Dhasa 2B - Standard Parific	4,763,225 (b)	0 (0	4,763,225	(4,154,022) (e)	0	609,203
Plancing Area 2-V	5,127,082 (b)		5,127,082		0	655,739
Phase 2B - BHC-Planning Arrea 2-P		-	3,730,445		(454,920)	967,735
Phase 2B - BRE-Planning Arrea 2-O	3,307,795 (b)	1,355,262	4,663,057	(2,884,738) (e)	(268,650)	1,209,669
Planning Area 2-Q	8,037,941 (b)		11,208,113	(7,009,912) (e)	(1,330,163)	2,868,038
Phase 2B - Lyon-Planning Area 2-R			10,072,202		(1,228,284)	2,612,885
Phase 2B - BHC-Planning Area 2-5 Total Phase 2B	36,484,977	(b) 2,120,517 10,657,525	47,142,502	(31,818,655)	(4,471,758)	10,852,089
Oraciona Debos	5 235 407	1 431 156	6 666 653	(2) 608 909)	(600 494)	3 457 250
Total Business Park	5,235,497	1,431,156	6,666,653	(2,608,909)	(600,494)	3,457,250
GRAND TOTAL	108,495,053	14,521,256	123,016,309	(100,245,116)	(6,092,929)	16,678,264

Footnotes located in Addenda of this report

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete.

The sales that are most helpful have been summarized in chart form as Residential Lot Sales (6000+SF) and placed in the Addenda of this report. Data No. 8 represents the subject sale, while Data No. 7 is also located in the Talega development. Data No. 9 is also helpful located in the competing Ladera masterplanned development.

After taking the above into consideration, I have concluded at a finished lot value of \$250,000. This calculates as follows:

43 lots x \$250,000/lot = \$10,750,000

Cost to Complete

In addition the allocated cost for the remaining infrastructure costs is estimated at \$655,739.

The results of the above analysis are detailed below.

 Merchant Builder Homes
 \$12,500,000

 Finished Lot Value
 \$10,750,000

 Less Infrastructure Costs
 (\$ 655,739)

 "As Is" Value
 \$22,594,261

 (Say) \$22,600,000

There have been 61 permits issued therefore all of this property value is classified as Developed Property.

Final Value Conclusion

After taking into consideration the remaining in-tract costs and backbone infrastructure costs, the final value conclusion is estimated to be \$22,600,000 (rounded).

PLANNING AREA 2-0 ("MIRALESTE")

This planning area consists of 107 lots, which have a typical size of 5,000 sf and is owned by Standard Pacific Homes. The home prices for this project are anticipated to be in the \$457,000 to \$490,000 range and square footages to range from 2,777 to 3,231 square feet. The site is being graded with four model homes under construction.

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete.

The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4000 to 6000 SF) and placed in the Addenda of this report. Data No. 32 represents the subject sale, while Data No. 31 is also located in the Talega development. Data Nos. 28 through 30are also helpful located in the competing Ladera masterplanned development.

After taking the above into consideration, I have concluded at a finished lot value of \$160,000. This calculates as follows:

 $107 \text{ lots } \times \$160,000/\text{lot} = \$17,120,000$

Cost to Complete to a Finished Lot

I have reviewed both the in-tract costs and the remaining backbone costs infrastructure for the development. The in-tract estimates were completed by The Moote Group. These costs have been estimated at \$29,143 per unit. This totals \$3,118,301 for the 107 lots. The merchant builder has expended \$992,319 for in tract costs since acquisition. Approximately \$116,000 is allocated to the four finished lots which are the model complex. The balance of \$876,000 will be applied to the bluetop lots (\$3,118,301-\$876,000 = \$2,242,301). In addition, the allocated cost for the remaining infrastructure costs is estimated at \$2,868,038. The results of the above analysis are detailed on the following page.

TALEGA VALLEY DEVELOPMENT COST SUMMARY

Adjusted Development Budget as of 7/01/01	0	0	167,521	199,865	133,519	43,124	1,824,896	609,203	655,739 967,735 1,209,669	2,868,038 (2,612,885 1,928,820 10,852,089	3,457,250	16,678,264
General Development Costs Completed as of 7/01/01(f)	0	0	0	0	0	0	(1,020,677)	0	0 (454,920) (568,650)	(1,330,163) (1,228,284) (889,741) (4,471,758)	(600,494)	(6,092,929)
	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e) (e) (e)	© (e)		
Backbone Costs Completed as of 7/01/01	(11,027,075)	(11,895,875)	(7,508,414) (e)	(8,958,058)	(5,984,429)	(1,932,859)	(18,510,842) (42,894,602)	(4,154,022)	(4,471,343) (2,307,790) (2,884,738)	(7,009,912) (6,231,033) (4,759,817) (31,818,655)	(2,608,909)	(100,245,116)
Total Development Budget	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	21,356,415 46,284,204	4,763,225	5,127,082 3,730,445 4,663,057	11,208,113 10,072,202 7,578,378 47,142,502	6,666,653	123,016,309
Total General Development Cost Budget (c), (d)	0	0	0	0	0	0	2,432,575	0	0 1,084,209 1,355,262	3,170,172 2,927,365 2,120,517 10,657,525	1,431,156 1,431,156	14,521,256
ı	(q)	(q) -	(p)	(p)	(p)	(p)	(a)	(a)	999	2 22		
Total Backbone Cost Budget (a)	11,027,075	11,895,875 22,922,950	7,675,935	9,157,923	6,117,948	1,975,983	18,923,840 (b) 43,851,629	4,763,225 (b)	5,127,082 2,646,236 3,307,795	8,037,941 7,144,837 5,457,861 36,484,977	5,235,497	108,495,053
Development Phase Master Developer Cost	Phase 1 - Catellus - Planning Areas 1-D/E & 1-F/G Phase 1 - Standard Pacific	Planning Areas 1-H/I & 1-J	Phase 2A - Lennar Planning Areas 2-F & 2-1 Phase 2A - Shea	Planning Area 2-G Phase 2A - Lyon	Planning Area 2-H Phase 2A - Woodbridge	Planning Area 2-B Phase 2A - Standard Pac/CRG	Planning Area 2-C Total Phase 2A	Phase 2B - BHC Planning Area 2-M Phase 2B - Standard Pacific	Planning Area 2-V Phase 2B - BHC-Planning Arrea 2-P Phase 2B - BRE-Planning Arrea 2-O Phase 2B - Standard Pacific	Planning Area 2-Q Phase 2B - Lyon-Planning Area 2-R Phase 2B - BHC-Planning Area 2-S Total Phase 2B	Business Park - Others Total Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

Finished Lot Value	\$17,120,000
Less Costs to Complete to a Finished Lot	(\$ 2,242,301)
Less Infrastructure Costs	(\$ 2,868,038)
"As Is" Value	\$12,009,661
(Sa	ay) \$12,000,000

Final Value Conclusion

After taking into consideration the remaining in-tract costs and backbone infrastructure costs, the final value conclusion is estimated to be \$12,000,000. Four permits have been issued for the model homes.

Total Valuation			\$12	2,000,000
Developed Property (4 lots x \$170,000)	\$	680,000		
Less Infrastructure Allocated	(107,216)		
			<u>(\$</u>	572,784)
Near Term Property			\$11	1,427,216

PLANNING AREA 2-R

This planning area consists of 61 lots, which have a typical size of 7,500 sf and is owned by Lyon Homes. The product type is classified as "semi-custom" home with prices anticipated to be in the \$634,000 to \$719,000 range and square footages to range from 4,156 to 4,671 square feet.

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete.

The sales that are most helpful have been summarized in chart form as Residential Lot Sales (6000+SF) and placed in the Addenda of this report. Data No. 8 represents the subject sale, while Data No. 7 is also located in the Talega development. Data No. 9 is also helpful and is located in the competing Ladera masterplanned development.

VALLEY	COST SUMMARY
TALEGA	DEVELOPMENT

General	De	Costs De	Completed	as of 7/01/01(t) as of 7/01/01	0,075) (e) 0 0 0	875) (a)	0		(7,508,414) (e) 0 167,521	(058) (e) 0 199,865	,429) (e) 0 133,519	.859) (e) 0 43,124	842) (4) (1020 677) 1 824 896	(1,020,677)	600 203		(e)	(e) (454,920)	,738) (e) (568,650) 1,209,669	(1,330,163) 2,868,038 (1,330,163) (a) (b) (c)	(4,228,284)	(e) (889,741)	(4,471,758) 10,852,089	(600,494)	(600,494) 3,457,250	5,116) (6,092,929) 16,678,264
DEVELOPMENT COST SUMMARY	Backbone		nent	Budget as of 7/01/01	11,027,075 (11,027,075)		22,922,950 (22,922,950)		7,675,935 (7,508	9,157,923 (8,958,058)	6,117,948 (5,984,429)	1,975,983 (1,932,859)	21 356 415 (18 510 842)		4 762 295				4,663,057 (2,884,738)	11,208,113 (7,009	A Commence of the Commence of	7,578,378 (4,759,817)	47,142,502 (31,818,655)		6,666,653 (2,608,909)	123,016,309 (100,245,116)
DEVELOPMENT	Total General	Development	Cost	Budget (c), (d)	0 (9)		0 /2		0 (q	0 (q)	0 (9)	0 (9)	(h) 2 432 575		2			—	(b) 1,355,262	(b) 3,170,172			10,657,525	1,431,156	1,431,156	14,521,256
		Total	Backbone Cost	Budget (a)	11,027,075 (11 805 875	22,922,950		7,675,935 (b)	9,157,923	6,117,948		18 003 840		(2) 300 036 1	4,705,223			3,307,795	8.037.941	4	5,457,861	36,484,977	5,235,497	5,235,497	108,495,053
		Development Phase	Master Developer Cost		Phase 1 - Catellus - Planning Areas 1-D/E & 1-F/G	Phase 1 - Standard Pacific	Total Phase 1	Phase 2A - Lennar	Planning Areas 2-F & 2-1	Phase 2A - Shea Planning Area 2-G	Phase 2A - Lyon Planning Area 2-H	Phase 2A - Woodbridge Planning Area 2-B	Phase 2A - Standard Pac/CRG	Total Phase 2A	Phase 2B - BHC	Planning Area z-w Phase 2B - Standard Pacific	Planning Area 2-V	Phase 2B - BHC-Planning Arrea 2-P	Phase 2B - BRE-Planning Arrea 2-0	Phase 2B - Standard Pacific Planning Area 2-Q	Phase 2B - Lyon-Planning Area 2-R	Phase 2B - BHC-Planning Area 2-S	Total Phase 2B	Business Park - Others	Total Business Park	GRAND TOTAL

Footnotes located in Addenda of this report

After taking the above into consideration, I have concluded at a finished lot value of \$250,000. This calculates as follows:

61 lots x
$$$250,000/lot = $15,250,000$$

Cost to Complete to a Finished Lot

I have reviewed both the in-tract costs and the remaining backbone costs infrastructure for the development. The in-tract estimates were completed by The Moote Group. These costs have been estimated at \$36,500 per unit. This totals \$2,226,500 for the 61 lots. The merchant builder has expended approximately \$574,000 for in tract costs since acquisition. Therefore the cost to complete is estimated at (\$2,226,500 - \$574,000) \$1,651,798. In addition, the allocated cost for the remaining infrastructure costs is estimated at \$2,612,885.

The results of the above analysis are detailed below.

Finished Lot Value	\$15,250,500
Less Costs to Complete to a Finished Lot	(\$ 1,652,500)
Less Infrastructure Costs	(\$ 2,612,885)
"As Is" Value	\$ 11,011,615
(Sa	y) \$ 11,011,000

Final Value Conclusion

After taking into consideration the remaining in-tract costs and backbone infrastructure costs, the final value conclusion is estimated to be \$11,011,000. This value is classified as a Near Term property.

PLANNING AREA 2-S ("CANTABRIA")

This planning area consists of 58 lots, which have a typical size of 5,500 sf and is owned by BHC. The home prices for this project are anticipated to be in the \$550,000 to \$650,000 range and square footages to range from 2,842 to 3,642 square feet. These are considered finished lots (see photo located in the Addenda of this report).

TALEGA VALLEY DEVELOPMENT COST SUMMARY

Development Phase Master Developer Cost	Total Backbone Cost Budget (a)	Total General Development Cost Budget (c). (d)	Total Development Budget	Backbone Costs Completed as of 7/01/01	General Development Costs Completed as of 7/01/01(f)	Adjusted Development Budget as of 7/01/01
Phase 1 - Catellus - Planning Areas 1-D/E & 1-F/G	11,027,075 (b)	0	11,027,075	(11,027,075) (e)	0	0
Phase 1 - Standard Pacific Planning Areas 1-H/I & 1-J	11,895,875 (b)		11.895.875	(11.895.875) (e)	C	c
Total Phase 1	22,922,950	0	22,922,950		0	0
Phase 2A - Lennar						
Planning Areas 2-F & 2-1 Phase 2A - Shea	7,675,935 (b)	0	7,675,935	(7,508,414) (e)	0	167,521
Planning Area 2-G	9,157,923 (b)	0	9,157,923	(8,958,058) (e)	0	199,865
Filase zA - Lyon Planning Area 2-H	6,117,948 (b)	0	6,117,948	(5,984,429) (e)	0	133,519
Phase 2A - Woodbridge Planning Area 2-B	1,975,983 (b)	0	1,975,983	(1,932,859) (e)	0	43,124
Phase 2A - Standard Pac/CRG Planning Area 2-C	18,923,840 (b)	2,432,575	21,356,415	(18,510,842) (e)	(1,020,677)	1.824.896
Total Phase 2A	43,851,629	2,432,575	46,284,204		(1,020,677)	2,368,925
Phase 2B - BHC Planning Area 2-M	4.763.225 (b)	C	4 763 225	(4 154 022) (6)	c	606 000
Phase 2B - Standard Pacific		, (Þ	602,800
Phase 2B - BHC-Planning Arrea 2-P	5,127,082 (b) 2.646.236 (b)	0 1.084.209	5,127,082	(4,471,343) (e)	0 (454 020)	655,739
Phase 2B - BRE-Planning Arrea 2-0		1,355,262	4,663,057		(568,650)	967,733 1,209,669
Phase 2B - Standard Pacific Planning Area 2-0	8 037 941 (h)	3 170 179	11 208 113	(2) (2)0 000 2)	14 220 4623	
Phase 2B - Lyon-Planning Area 2-R		2,927,365	10,072,202	(6.231.033) (e)	(1,330,163)	2,666,036
Phase 2B - BHC-Planning Area 2-S	٠ ١	2,120,517			(889,741)	1,928,820
i otal Phase 2B	36,484,977	10,657,525	47,142,502	(31,818,655)	(4,471,758)	10,852,089
Business Park - Others Total Business Park	5,235,497 5,235,497	1,431,156	6,666,653	(2,608,909)	(600,494)	3,457,250
GRAND TOTAL	108,495,053	14,521,256	123,016,309	(100,245,116)	(6,092,929)	16,678,264

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined using comparable sales. The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4,000 to 6000 SF) and placed in the Addenda of this report. Data No. 31 represents the subject sale, while Data No. 32 is also located in the Talega development. Data Nos. 28 through 30 are also helpful located in the competing Ladera masterplanned development.

After taking the above into consideration, I have concluded at a finished lot value of \$250,000. This calculates as follows:

58 lots x \$180,000/lot = \$10,440,000

Costs to Complete

While these lots are considered to be finished lots (see addendum photograph) there is still some backbone infrastructure that is allocated to this planning area. The allocated costs for the remaining infrastructure costs are estimated at \$1,928,820.

Finished Lot Value \$10,440,000
Less Infrastructure Costs (\$1,928,820)
"As [s" Value \$8,511,180
(Say) \$8,510,000

Final Value Conclusion

After taking into consideration the remaining in-tract costs and backbone infrastructure costs, the final value conclusion is estimated to be \$8,510,000. There have been three permits issued. The balance of the property is classified as a Near Term property.

Total Valuation \$8,510,000

Developed Property (3 lots x \$180,000) \$540,000

Less Infrastructure Allocated (299,765) (\$440,235)

Near Term Property (\$1000 x \$180,000)

Near Term Property (\$1000 x \$180,000)

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BUSINESS PARK LANDS

Business Park 1-Makeua Ownership (Lot 5, Tract 14227) is a 5.37 acre parcel located in the Business Park portion of Talega. It is a rough-graded pad that was sold in December 2000 for \$2,311,7000 (comparable sale number 10). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7 through 9 and 11 are also located in the Talega Business Park. They sold between \$9.00 and \$10.12 per square foot. The subject sold on the basis of \$9.88 per square foot and is considered to be a fair market value as supported by the sales. This calculates as follows:

233,917 SF (5.37 Acs) x10.00 \$ SPF = \$2,333,917 (say) \$2,335,000

In addition there is infrastructure that is to be completed to other portions of the business park. This was allocated on an acreage basis, and the amount attributed to this parcel is \$708,115 Deducting this from the fair market value results in an "as is" value as follows:

\$2,335,000 - \$708,115= \$1,626,885 (Say) \$1,627,000

The above is classified as Near Term Property

Business Park I - Burke Ownership (Lots I and 2 of Tract 14227 and Lot I of Tract 15917) is a 13.78 acre parcel located in the Business Park portion of Talega. It is a rough-graded pad that was sold in December 2000 for \$5,702,440 (Data No. 8). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7 and 9 through 11 are also located in the Talega Business Park. They sold between \$9.00 and \$10.12 per square foot. The subject sold on the basis of \$9.50 per square foot I have concluded at \$10.00 per square foot. This calculates as follows:

600,257 SF (13.78 Acs) x 10.00 SPF = \$6,000,257 (say) \$6,000,000

In addition there is infrastructure that is to be completed in portions of the business park. This was allocated on an acreage basis, and the amount attributed to this parcel is \$1,817,098. Deducting this from the fair market value results in an "as is" value as follows:

\$6,000,000 - \$1,817,098 = \$4,182,902 (say) \$4,180,000

The above is classified as a Developed Property. There have been fifteen building permits issued for this property.

Business Park 2A-Talega Industry Ownership (Lot No. 2, Tract No. 15917; and Lots 3, 4 and C of Tract No. 14227) is a 4.26 acre parcel located in the Business Park portion of Talega. It is a rough-graded pad that was sold in September 2000 for \$1,699,775 (Data No. 9). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7, 8, 10 and 11 are also located in the Talega Business Park. They sold between \$9.00 and \$10.12 per square foot. The subject sold on the basis of \$9.00 per square foot. This calculates as follows:

185,566 SF (4.26 Acs) x \$9.00 PSF = \$1,670,094 (say) \$1,670,000

In addition there is infrastructure that is to be completed. This was allocated on an acreage basis and the amount attributed to this parcel is \$561,744. Deducting this from the fair market value results in an "as is" value as follows:

\$1,670,000 - \$561,744 = \$1,108,256 (say) \$1,110,000

The above is classified as Near Term Property.

Business Park 2A-Ewing Ownership (Lot No. 3, Tract No. 15917) is a .93 acre parcel located in the Business Park portion of Talega. It is a rough-graded pad that was sold in September 2000 for \$410,000 (Data No. 11). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7 through 10 are also located in the Talega Business Park. They sold between

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\$9.00 and \$9.88 per square foot. The subject sold on the basis of \$10.12 per square foot and is considered to be fair market value as supported by the sales. This calculates as follows:

 $40,511 \text{ SF } (.93 \text{ Acs}) \times \$10.15 \text{ PSF} = \$411,186 \text{ (say) } \$410,000$

In addition there is infrastructure that is to be completed. This was allocated on an acreage basis and the amount attributed to this parcel is \$122,6344. Deducting this from the fair market value results in an "as is" value as follows:

\$410,000 - \$122,634 = \$287,366 (say) \$288,000

The above is classified as Near Term Property.

Business Park 2B-Pacific Packaging Ownership (Lot No. 4, Tract No. 15917) is a 1.88 acre parcel located in the Business Park portion of Talega. It is a rough-graded pad that was sold in December 2000 for \$790,000 (Data No. 7). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 8 through 11 are also located in the Talega Business Park. They sold between \$9.00 and \$10.12 per square foot. The subject sold on the basis of \$9.65 per square foot and is considered to be fair market value as supported by the sales. This calculates as follows:

81,893 SF (1.88 Acs) x \$9.65 SPF = \$790,267 (say) \$790,000

In addition there is infrastructure that is to be completed in other portions of the business park. This was allocated on an acreage basis and the amount attributed to this parcel is \$247,906. Deducting this from the fair market value results in an "as is" value of the following:

\$790,000 - \$247,906 = \$542,094 (say) \$542,000

The above is classified as Near Term Property.

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SECTION II MASTER DEVELOPER OWNED PARCELS

In this section there will be three values reported via separate premises as follows:

PREMISE A

This is the valuation of Talega Associates, LLC ownership Including Planning Area 2-C (Age Restricted lands). This value has been requested to be consistent with the definition in the Funding, Construction and Acquisitions Agreement by and among the Santa Margarita Water District, Community Facilities District No. 99-1 and Talega Associates, LLC. Section 3.3.1 is a covenant regarding Capistrano Unified School District Community Facilities No. 90-2(Talega) Bonds. This states "Talega covenants and agrees not to request or cooperate in the issuance of bonds or other indebtedness (the CFD No. 90-2 Bonds) secured by the levy of special taxes of CFD 90-2, taking into account the amount of the CFD 90-2 Bonds (excluding any amount to be held in an escrow fund or secured by a letter of credit or other form of security acceptable to the School District and District).

PREMISE B

This is the valuation of the Talega Associates, LLC ownership excluding Planning Area 2-C (Age Restricted lands). Approximately 66 acres of land is excluded from the rate and method for the special tax for the Capistrano Unified School District. As a result the collateral for the bond issue does not include the age restricted housing. Therefore, it is excluded from the value for CUSD 90-2.

PREMISE C

This is the valuation of Talega Associates, LLC ownership that can be developed without approval of additional permits by United States Army Corps of Engineers. This 404 permit would be required for the majority of Villages 3, 4, 5 and 6.

In valuing the master developer owned properties a DCF will be used due to the single ownership. This analysis was defined earlier in the report. First, a retail value for each of the subject planning areas needs to be estimated. Next, an absorption period will be determined based on a report prepared by Empire Economics. The remaining costs to develop the property to a "salable condition" will be considered. Finally, the resulting cash flows will be discounted at an appropriate rate, which considers the 1) time value of money; 2) risks associated with the project; and 3) profit due to the developer. The analysis of the above revenues and costs results in a present value for the subject property.

Premises A, B and C are presented on the following pages.

PREMISE A – TALEGA ASSOCIATES LLC OWNERSHIP INCLUDING AGE RESTRICTED LANDS

RETAIL VALUE

The Talega project has been designated into several different land use categories. The residential component of the project has the majority of categories, totaling 7. In addition, there is Business Park use.

A brief discussion of each residential land use category and resulting values are as follows.

Monterey and Miraleste Product

The entire project has four planning areas for this category. A total of 339 units have been proposed for this land use category on a total of 77.6 acres. Planning Areas will be in Phases 3 and 5 of the subject project. Lot sizes for this product are £5,000 square feet.

The data considered in this analysis is listed as Residential Lot Sales (40000 – 6000 SF). The conclusion for these lots is \$170,000 to \$190,000 per finished lot. The difference attributed to the location within the project.

Montellano and Pacific Summit Product

There are four planning areas in the remaining lands for the Talega masterplanned development. A total of 305 units are planned on 99.4 net acres. These are proposed to occur in Phases 4 and 5 of the subject project. The lot size for this land use category ranges from 6,300 to 7,560 square feet.

The data considered in this analysis is listed as Residential Lot Sales (6,000+ SF). The conclusion for these lots is estimated at \$250,000 to \$275,000 per finished lot.

Cantabria and Small SFD Lots

This category consists of lots in the 5,500 to 5,775 square foot range with a total of 305 units proposed 78.9 net acres. These planning areas are proposed to be in Phases 3, 4 and 5. A total of 305 units remain for master developer.

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The data considered in this analysis is listed as Residential Lots Sales (4000-6000 SF). The conclusion for these lots is estimated at \$200,000 per finished lot.

Birch Hills and Trinidad

This category consists of 2 planning areas with densities that range from 7.4 to 12.9 units per acre.

The data considered in this analysis is listed as Residential Lot Sales (2000-4000 SF). The conclusion for these lots is estimated at \$90,000 to \$110,000 per unit.

Stoneridge, Northwood and Carmel

The project had a total of 177 lots. The lots are in three planning areas with 32.2 net acres. These are located in Phases 2 and 3. The lot size is typically in the 3,500 to 4,500 SF range.

The data considered in this analysis is listed as Residential Lot Sales (2000-4000 SF). I have concluded at a range of value of \$125,000 to \$175,000.

Vizcaya, Custom and Semi-Custom

The project has a total of 182 lots that range in size from 9,000 to 12,000 square feet. These planning areas are located in Phases 4 and 6 of the subject project. Net acreage for these planning areas is 69.4 net acres.

The data considered in this analysis is listed as Residential Lot Sales (6000 SF). I have concluded at a range of value of \$300,000 to \$350,000 per lot.

Town Center

The project contains one planning area within this designation. The density of this land use category ranges from 10.4 to 11.5. Total acreage for the Town Center is 29.6 net acres. The data considered in this analysis is listed as Attached Residential Sales.

ASSUMPTIONS MATRIX

Talega Valley Talega CFD 90-2

----- Parcel's Land-Use Designations --

PRODUCT	DEV.		Res.	NET	PRICE	PRICE	NET LOTS	LOT SIZE OR DENSITY
TYPE	PHASE	VILLAGE	Acres	ACRES	/ SQ. FT.	PER LOT	LUIS	OR DENSITY
Monterey & Miraleste		ļ						1.050
Monterey	3	3E	18.5			170,000	73	4,950
Monterey	5	5D	29.1		ļ	190,000	135	4,950
Miraleste	3	3G	7.7		ļ	170,000	36	5,000
Miraleste	5	5A	22.3			190,000	95	5,000
Monterey & Mira	leste Totals		77.6				339	
Montellano & Pacifica Summit								
Montellano	4	4D	25.7			275,000	69	7,560
Montellano	5	5C	28.9			275,000	77	7,560
Pacifica Summit	4	4B	19.9			250,000	67	6,300
Pacifica Summit	5	5B	24.9			250,000	92	6,300
Montellano & Pacifica Su	mmit Totals		99.40				305	
Small Lot SFD & Cantabria								
Small Lot SFD	3	3F	23.4			200,000	88	5,775
Cantabria	4	4C	30.8		<u> </u>	200,000	130	5,500
Cantabria	5	5E	24.7			200,000	87	5,500
Small Lot SFD & Can	abria Totals		78.9				305	
Birch Hills & Trinidad								
Birch Hills	3	3A	7.6			90,000	98	12.9
Trinidad	3	3B	13.3			110,000	98	7.4
Birch Hills & Tri	nidad Totals		20.9				196	
Stone Ridge, Northwood & Carmel								
Stone Ridge	3	3C	15.3			150,000	79	4,500
Northwood	3	3D	13.5			125,000	71	3,825
Carmel	2	2W	3.4			175,000	27	7.9
Stone Ridge, Northwood & C	armei Totals		32.2				177	
Vizcaya , Semi & Custom Est.								
Vizcaya	4	4A	12.6			350,000	31	11,200
Vizcaya	4	4E	11.8			350,000	27	11,200
Semi Custom Est.	6	6D	13			300,000	45	9,000
Semi Custom Est.	6	6E	8.3			300,000	20	9,000
Semi Custom Est.	6	6C	14.9			300,000	43	9,000
Custom Est.	6	6B	8.8			350,000	16	12,000
Vizcaya , Semi & Custor	n Est. Totals		69.4				182	
Town Centers	T							
Village Center A	TC	TC-A	17.6			100,000	204	11.5
Village Center B	TC	TC-B	12			100,000	125	10.4
	nters Totals		29.6				329	
Business Park		Ì			I			
Business Park	N/A	 		49.59	9.50			
	Park Totals	Ì		49.59	ĺ		· · · · · · · · · · · · · · · · · · ·	

Grand Total

408.00 49.59

Business Park

Commercial/Business. I have considered the subject sales as well as comparable data in arriving at The Business Park totals 49.59 acres. The data considered in this analysis is listed as Market Data values for these parcels

SUMMARY - RETAIL VALUE

The master developer owned parcels are listed on the facing page.

OTHER REVENUE

Approximately \$10,600,000 will be utilized for facilities (the difference between the two being for bond reserve fund and capitalized interest). These monies are anticipated to be disbursed within the There are two other sources of revenue. These include monies currently in escrow with Santa Margarita Water District CFD 99-01. There is \$12,570,000 currently in escrow with SMWD 99-01. first year. The monies are to be disbursed according to a covenant between SMWD 99-1 and Talega Associates, LLC.

In addition, there is an agreement for funding of Vista Hermosa Interchange ("Agreement"). This Agreement essentially cites the obligation of Talega in the construction of Vista Hermosa Interchange. Talega Associates, LLC "fair share" of the interchange is \$4,482,000. While this is the fair share, Talega Associates, LLC agreed to "front" the obligation of the costs (\$12,578,683). As part of this Agreement a major landowner (Marblehead) has agreed to pay Talega Associates, LLC \$5,880,000 when they have approvals for their project. At the present time Marblehead is attempting to gain approvals through the Coastal Commission. I have estimated that these monies would occur in Period 4 (mid 2005) of the cash flow.

ABSORPTION PERIOD

In determining an absorption period for the subject project, I have reviewed a report prepared by Empire Economics prepared an absorption period in which the absorption related to the end user (in most cases this would refer to the homebuyer; in the case of the commercial site, when the building Empire Economies (July 2001) on the subject project for Capistrano Unified School District.

discounted cash flow analysis I considered when the lands were sold to a merchant builder. As a year prior to the homes being built, sold and closing escrow. I have also considered the transactions was complete and leases or occupied by owner/user). This report relates to 3,400+ units while my discounted cash flow applies only to the lots owned by the master developer (1833). In my result, I have taken into account that a merchant builder would acquire the lands approximately one that have occurred over the last 3 years. The first land transaction recorded in December 1998. There have been 12 land transactions totaling 1,736 units since that time frame. This represents an annual absorption of 772 lots.

APPRECIATION/INFLATION RATES

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The remaining cost of development includes the remaining backbone infrastructure as well as the finished lot cost that will bring the residential lots to a finished lot condition. A separate line item in

the DCF has the bridge costs that are required by the U.S. Army Corps of Engineers for a 404 Permit. That will be required for development of Villages 3, 4, 5 and 6 (3-G can be developed without the Permit).

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TALEGA VALLEY DEVELOPMENT COST SUMMARY

ral ment s from	(761,991) Budget ds of 7/67/01 (761,991) 0 (9) 1,620,956 (761,991) 0 1,620,956	0 0 4	(5,731,992) 0 41,446,089	(7,386,764) (990,000) (9) 30,507,747	(1,643,399) 0 8,912,864	(915,527) 0 4,965,298 (2,558,926) 0 13,878,162	(2,060,788) 0 17,437,371	(2,819,935) 0 8,868,486 (2,819,935) 8,868,486	(26.967.091) (990.000) 158.010.700
Backbone Costs Completed	(3,865,548) (e) (3,865,548)	(8,244,265) (e) (8,244,265)	0	0	(e) 0	(e) 0	(3,983,101)	(4,934,240)	(21,027,154)
Total Development Budget	6,248,495	58,142,849 58,142,849	47,178,081	38,884,511	10,556,263	5,880,825 16,437,088	23,481,260	16,622,661 16,622,661	206,994,945
Total General Development Cost	1 1		13,661,036	17,604,847	3,916,706	2,181,971 6,098,677	4,911,468	6,720,742	64,270,567
Total Backbone Cost Budget (a)	4,432,445 4,432,445	44,685,102 (b) 44,685,102	33,517,045	21,279,664	6,639,557 (b)	3,698,854 (b) 10,338,411	18,569,792	9,901,919	142,724,378
Development Phase Master Developer Cost	Phase 2B - Talega Total Phase 2B	Phase 3A/3B - Talega Total Phase 3	Phase 4 - Talega	Phase 5 - Talega	Phase 6 - Talega Phase 6 - Talega	(16.1 Acres of Age Res.) Phase 6 - Talega	Town Center - Talega	Business Park - Talega Total Business Park	GRAND TOTAL

ITEM	AMOUNT	COMMENTS
"A" - Agreement	\$12,157,684	Total amount of Talega Associates, LLC commitment.
"B" - Talega "Fair Share" of Vista Hermosa Interchange	\$ 4,482,000	This amount is accounted for in back-bone costs.
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"E" – Miscellancous	\$ 545,684	Amount Talega commits to funding with future reimbursements from other projects in the costs.

I will consider Items "C" and "E" as an obligation for Talega (\$6,425,684). Item "D" is a federal funding source, which I have assumed is a guaranteed source of funds. Items "B" through "E" represent the total amount (\$12,157,684) of this Agreement.

An exhibit indicating the total backbone costs, total general development cost budget, total master developer's budget, backbone costs completed, general development costs completed, general development costs deleted from budget, and adjusted development budget is included on the facing page.

LOAN DRAW

I have assumed that the master developer would fund the entire development and repay the loan from the proceeds of the sales of the lots. I have assumed an 8.0% interest rate and a 90% of revenues repayment.

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ONE PERCENT BUILDER AD FEE

The master developer is entitled to 1% of the completed home sales price as a marketing fee. I have calculated this by using average prices for the different tracts. Please refer to the schedule in the Addenda

DISCOUNT RATE

The discount rate involves several factors, which include the time value of money, the variety and magnitude of different risks associated with the project, and profit that any developer would expect in developing the project. It should be noted that discount rates (particularly in the case of land development projects) are not easily derived from real estate market data. Indeed, if one could abstract a discount rate from a previous land development project, it in all probability would not be relevant in today's marketplace. That is, the historical perspective of a master planned project that began 5 to 10 years ago and sold out last year would, in my opinion, not be relevant. Market conditions, as well as market expectations, change and as a result, what the market anticipates today is more important than what has occurred in the past. The appraiser needs to make subjective decisions on the future profit expectations during the anticipated time frame for the income stream generated by such a large project.

Another perspective on discount rates appeared in an article written for The Appraisal Journal (January 1989; Page 85) entitled Discount Rate Derivation. The author (Robert Mason) states "over the past decade improved real estate investments have had a discount rate between 1.25 and 2.5 times the safe rate, while vacant or subdivision lands have had a discount rate between 3 and 5 time the safe rate. The safe rate is the compensation paid to a lender or investor for the use of money. Assume for the moment that the lender is the U.S. Government in which a benchmark 10-year treasury bond is utilized for this analysis. As of the July 2001 benchmark 10-year bill was 5.0%.

We will assume this U.S. treasury rate is the "safe rate". The major elements of a discount rate are Based on the preceding, a discount rate would be "built-up" under the risk rate and safe rate. following variables

- As previously discussed a safe rate of 5.0%. 7 (2
- Risks associated not only with this project, but a rate that reflects the burdens and benefits of real estate investment.

builder buying fully entitled finished lots who is building a housing development of say 50 to 100 residential values are at best stuble. We have observed in the marketplace that the typical merchant nouses (the total in a given tract) expects a minimum 10 to 12% profit based on the sales price of the Capital markets for financing any type of land development are virtually non-existent; and real estate house. Utilizing a 12% factor, the following discount rate is "built-up"

8.0%	12.0%	17.0%
	•	
Safe Rate	Risk/Profit	Total

Note that 17.0% is only 3.4 times the safe rate. A factor of 5 would equate to a 25% discount rate. Although the above analysis is helpful in determining an appropriate discount rate, the market perspective is as important as the theoretical build-up of the rate.

California for its opinion regarding the appropriate discount rates for discounting cash flows to a their own experience in feasibility analysis and valuation of planned community development Economic Research Associate (ERA) was asked by the Metropolitan Water District of Southern present value for large landholdings planned for development. Their conclusions were drawn from projects over the past 15 years including several current assignments. ERA states "The appropriate discount rate must reflect the rate of return that a typical buyer expects. Discount rates vary depending upon the cash flow methodology and market expectation as to the following.

- The availability and cost of capital.
- The degree of uncertainty in cost estimates. The degree of uncertainty in market forecasts.

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- The degree of uncertainty in entitlements.
- The overall perceived risk in the development.

 The expected rate of appreciation in product prices, in relation to the inflation rates employed in the cash flow forecast.

rate. The article, which dealt with an artist's estate, discussed what an appropriate discount rate An interesting article in the April 16, 1992 Wall Street Journal dealt with the concept of a discount would be for the artist's works. The sum of the individual values at the time of the artist's death was estimated at \$72.8 million. A dispute occurred between the IRS, who discounted the total between 10 and 37%, and the expert for the estate who proposed a 75% discount. The judge stated that the However, I point it out for two reasons: 1) the \$72.8 million would take time to sell off; and 2) the ppinion of the estate's expert "defies common sense", yet the IRS' opinion was also unjustified. "Frustrated by the lack of a reliable expert opinion" the judge valued the art at a 50% discount. Obviously, this is not considered as a reliable discount rate to be considered in the subject case. judge indicated that the rate must reflect what the history and prospects of the sales are, the art market's general state, and the works themselves. In a way, this is similar to what must be considered in determining a discount rate for this project. That is, the appraiser must consider the real estate market in Orange County, the general real estate market as a whole, and the product itself. It is worth noting that even the IRS proposed a 10 to 37% discount rate.

A more recent article in The Wall Street Journal (Donald's Wealth Estimates Trump Reality January 19, 2000) also addressed discount rates. In this article, which addressed Donald Trunip's wealth, the author notes "but conservative accounting would require Mr. Trump to discount by 20 to 30%, say real estate investors (the \$250 million he expects from Trump World Towers), as the money is three years away and may be reduced by a slowdown or failure to linish the building on time (risk and time).

Companies, American Beauty and Genstar Development Company. They have been involved in the The McMillin In addition, interviews with developers who are considered to focus on the development of master development of master planned residential communities that exceed 3,000 units. They have been from These include representatives planned communities were conducted.

successful in the last decade in the development of several large master planned residential communities. In these interviews, they confirmed that risk, location, and a host of factors influence their "target return". They also did not want to divulge specific pro-forma numbers, but did indicate that they would be targeting a 20 to 25% return.

In determining an appropriate discount rate, I have taken into consideration the fact that the subject project has sold over 1,750 lots since sales to merchant builders began (December 1998). I have also taken into account the number of units and the anticipated absorption. I have also taken into account the risks in developing the balance of the property.

I have concluded at a discount rate of 25% for the subject project.

DISCOUNTED CASH FLOW CONCLUSION

The preceding information has been imputed into a eash flow analysis, which is located in the Addenda of this report. I have concluded at a discounted cash flow value of \$83,724,000 (say) \$83,725,000 for the subject project based on this analysis.

PREMISE B - TALEGA ASSOCIATES LLC OWNERSHIP EXCLUDING AGE RESTRICTED LANDS

RETAIL VALUE

The Talega project has been designated into several different land use categories. The residential component of the project has the majority of categories, totaling 7. In addition, there is Business Park use.

A brief discussion of each residential land use category and resulting values are as follows.

Monterey and Miraleste Product

The entire project has four planning areas for this category. A total of 339 units have been proposed for this land use category on a total of 77.6 acres. Planning Areas will be in Phases 3 and 5 of the subject project. Lot sizes for this product are $\pm 5,000$ square feet.

The data considered in this analysis is listed as Residential Lot Sales (40000 – 6000 SF). The conclusion for these lots is \$170,000 to \$190,000 per finished lot. The difference attributed to the location within the project.

Montellano and Pacific Summit Product

There are four planning areas in the remaining lands for the Talega masterplanned development. A total of 305 units are planned on 99.4 net acres. These are proposed to occur in Phases 4 and 5 of the subject project. The lot size for this land use category ranges from 6,300 to 7,560 square feet.

The data considered in this analysis is listed as Residential Lot Sales (6,000+ SF). The conclusion for these lots is estimated at \$250,000 to \$275,000 per finished lot.

Cantabria and Small SFD Lots

This category consists of lots in the 5,500 to 5,775 square foot range with a total of 305 units proposed 78.9 net acres. These planning areas are proposed to be in Phases 3, 4 and 5. A total of 305 units remain for master developer.

The data considered in this analysis is listed as Residential Lots Sales (4000-6000 SF). The conclusion for these lots is estimated at \$200,000 per finished lot.

Birch Hills and Trinidad

This category consists of 2 planning areas with densities that range from 7.4 to 12.9 units per acre.

The data considered in this analysis is listed as Residential Lot Sales (2000-4000 SF). The conclusion for these lots is estimated at \$90,000 to \$110,000 per unit.

Stoneridge, Northwood and Carmel

The project had a total of 177 lots. The lots are in three planning areas with 32.2 net acres. These are located in Phases 2 and 3. The lot size is typically in the 3,500 to 4,500 SF range.

The data considered in this analysis is listed as Residential Lot Sales (2000-4000 SF). I have concluded at a range of value of \$125,000 to \$175,000.

Vizcaya, Custom and Semi-Custom

The project has a total of 136 lots that range in size from 9,000 to 12,000 square feet. These planning areas are located in Phases 4 and 6 of the subject project. Net acreage for these planning areas is 53.4 net acres.

The data considered in this analysis is listed as Residential Lot Sales (6000 SF). Thave concluded at a range of value of \$300,000 to \$350,000 per lot.

Town Center

The project contains one planning area within this designation. The density of this land use category ranges from 10.4 to 11.5. Total acreage for the Town Center is 29.6 net acres. The data considered in this analysis is listed as Attached Residential Sales.

ASSUMPTIONS MATRIX

Talega Valley Talega CFD 90-2

— Parcel's Land-Use Designations ----

PRODUCT	DEV.		Res.	NET	PRICE	PRICE	NET	LOT SIZE
TYPE	PHASE	VILLAGE	Acres	ACRES	/ SQ. FT.	PER LOT	LOTS	OR DENSITY
Monterey & Miraleste								
Monterey	3	3E	18.5			170,000	73	4,950
Monterey	5	5D	29.1			190,000	135	4,950
Miraleste	3	3G	7.7			170,000	36	5,000
Miraleste	5	5A	22.3			190,000	95	5,000
Monterey & M	raleste Totals		77.6				339	1
Montellano & Pacifica Summit		Ì			Ì			Ť
Montellano	4	4D	25.7			275,000	69	7,560
Montellano	5	5C	28.9			275,000	77	7,560
Pacifica Summit	4	4B	19.9			250,000	67	6,300
Pacifica Summit	5	5B	24.9			250,000	92	6,300
Montellano & Pacifica S	Summit Totals		99.40				305	
Small Lot SFD & Cantabria					T			Ť
Small Lot SFD	3	3F	23.4			200,000	88	5,775
Cantabria	4	4C	30.8	-	1	200,000	130	5,500
Cantabria	5	5E	24.7			200,000	87	5,500
Small Lot SFD & Ca	ntabria Totals		78.9				305	
Birch Hills & Trinidad								
Birch Hills	3	3A	7.6			90,000	98	12.9
Trinidad	3	3B	13.3			110,000	98	7.4
Birch Hills & T	rinidad Totals		20.9		i		196	
Stone Ridge, Northwood & Carmel				i				
Stone Ridge	3	3C	15.3			150,000	79	4,500
Northwood	3	3D	13.5			125,000	71	3,825
Carmel	2	2W	3.4			175,000	27	7.9
Stone Ridge, Northwood &	Carmel Totals		32.2		1		177	
Vizcaya , Semi & Custom Est.	1			-				<u> </u>
Vizcaya	4	4A	12.6			350,000	31	11,200
Vizcaya	4	4E	11.8			350,000	27	11,200
Semi Custom Est.	6	6D	13			300,000	45	9,000
Semi Custom Est.	6	6E	8.3		 -	300,000	17	9,000
Semi Custom Est.	6	6C	14.9			300,000		3,000
Custom Est.	6	6B	8.8			350,000	16	12,000
Vizcaya , Semi & Custo	m Est. Totals	İ	69.4	i			136	
Town Centers								
Village Center A	тс	TC-A	17.6			100,000	204	11.5
Village Center B	TC	TC-B	12			100,000	125	10.4
	enters Totals		29.6	Ì			329	Ì
Business Park					1			
Business Park	N/A	- 1		49.59	9.50			
	s Park Totals		* †	49.59		<u>_</u>		1

Grand Total

408.00 49.59

Business Park

The Business Park totals 49.59 acres. The data considered in this analysis is listed as Market Data-Commercial/Business. I have considered the subject sales as well as comparable data in arriving at values for these parcels.

SUMMARY - RETAIL VALUE

The master developer owned parcels are listed on the facing page.

OTHER REVENUE

There are two other sources of revenue. These include monies currently in escrow with Santa Margarita Water District CFD 99-01. There is \$12,570,000 currently in escrow with SMWD 99-01. Approximately \$10,600,000 will be utilized for facilities (the difference between the two being for bond reserve fund and capitalized interest). These monies are anticipated to be disbursed within the first year. The monies are to be disbursed according to a covenant between SMWD 99-1 and Talega Associates, LLC.

In addition, there is an agreement for funding of Vista Hermosa Interchange ("Agreement"). This Agreement essentially eites the obligation of Talega in the construction of Vista Hermosa Interchange. Talega Associates, LLC "fair share" of the interchange is \$4,482,000. While this is the fair share, Talega Associates, LLC agreed to "front" the obligation of the costs (\$12,578,683). As part of this Agreement a major landowner (Marblehead) has agreed to pay Talega Associates, LLC \$5,880,000 when they have approvals for their project. At the present time Marblehead is attempting to gain approvals through the Coastal Commission. I have estimated that these monies would occur in Period 4 (mid 2005) of the cash flow.

ABSORPTION PERIOD

In determining an absorption period for the subject project, I have reviewed a report prepared by Empire Economics (April 2001) on the subject project for Capistrano Unified School District. Empire Economics prepared an absorption period in which the absorption related to the end user (in most cases this would refer to the homebuyer; in the case of the commercial site, when the building

was complete and leases or occupied by owner/user). This report relates to 3,400+ units while my discounted eash flow applies only to the lots owned by the master developer (1787). In my discounted eash flow analysis I considered when the lands were sold to a merchant builder. As a result, I have taken into account that a merchant builder would acquire the lands approximately one year prior to the homes being built, sold and closing escrow. I have also considered the transactions that have occurred over the last 2-1/4 years. The first land transaction recorded in December 1998. There have been 12 land transactions totaling 1,736 units since that time frame. This represents an annual absorption of 772 lots.

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						General	General	
			Total General		Backbone	Development	Development	Adjusted
Development Phase	Total		Development	Total	Costs	Costs	Costs	Development
Master Developer Cost	Backbone Cost		Cost	Development	Completed	Completed	Deleted from	Budget
	Budget (a)	_	Budget (c), (d)	Budget	as of 1/31/01	as of 7/01/01(f)	Budget	as of 7/01/01
Phase 2B - Talega	4,432,445 (b)	Q Q	1,816,050	6,248,495	(3,865,548) (e)	(761,991)	(6) 0	1,620,956
Total Phase 2B	4,432,445		1,816,050	6,248,495	(3,865,548)	(761,991)	0	1,620,956
Phase 3A/3B - Talega	44,685,102 (b)	(A)	13,457,747	58,142,849	(8,244,265) (e)	(5,646,695)	0	44,251,889
Total Phase 3	44,685,102		13,457,747	58,142,849	(8,244,265)	(5,646,695)	0	44,251,889
Phase 4 - Talega	33,517,045		13,661,036	47,178,081	0	(5,731,992)	0	41,446,089
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(16.1 Acres of Age Res.)	3,698,854 (b)		2,181,971	5,880,825	(e) 0	(915,527)	0	4,965,298
Phase 6 - Talega	10,338,411		6,098,677	16,437,088	0	(2,558,926)	0	13,878,162
Town Center - Talega	18,569,792		4,911,468	23,481,260	(3,983,101)	(2,060,788)	0	17,437,371
Business Park - Talega Totat Business Park	9,901,919	l	6,720,742	16,622,661	(4,934,240) (4,934,240)	(2,819,935)	0	8,868,486
GRAND TOTAL	142,724,378		64,270,567	206,994,945	(21,027,154)	(26,967,091)	(000'066)	158,010,700

ITEM	AMOUNT	COMMENTS
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The master developer is entitled to 1% of the completed home sales price as a marketing fee. I have calculated this by using average prices for the different tracts. Please refer to the schedule in the Addenda.

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The discount rate involves several factors, which include the time value of money, the variety and magnitude of different risks associated with the project, and profit that any developer would expect in developing the project. It should be noted that discount rates (particularly in the case of land development projects) are not easily derived from real estate market data. Indeed, if one could abstract a discount rate from a previous land development project, it in all probability would not be relevant in today's marketplace. That is, the historical perspective of a master planned project that began 5 to 10 years ago and sold out last year would, in my opinion, not be relevant. Market conditions, as well as market expectations, change and as a result, what the market anticipates today is more important than what has occurred in the past. The appraiser needs to make subjective decisions on the future profit expectations during the anticipated time frame for the income stream generated by such a large project.

Another perspective on discount rates appeared in an article written for <u>The Appraisal Journal</u> (January 1989; Page 85) entitled *Discount Rate Derivation*. The author (Robert Mason) states "over the past decade improved real estate investments have had a discount rate between 1.25 and 2.5 times the safe rate, while vacant or subdivision lands have had a discount rate between 3 and 5 time the safe rate, while vacant or subdivision lands have had a discount rate between 3 and 5 time the safe rate. The safe rate is the compensation paid to a lender or investor for the use of money. Assume for the moment that the lender is the U.S. Government in which a benchmark 10-year treasury bond is utilized for this analysis. As of the July 2001 benchmark 10-year bill was quoted at

rate are risk rate and safe rate. Based on the preceding, a discount rate would be "built-up" under the 5.0%. We will assume this U.S. treasury rate is the "safe rate". The major elements of a discount following variables.

- As previously discussed a safe rate of 5.0%. Risks associated not only with this project, but a rate that reflects the burdens and benefits of real estate investment.

residential values are at best stable. We have observed in the marketplace that the typical merchant builder buying fully entitled finished lots who is building a housing development of say 50 to 100 houses (the total in a given tract) expects a minimum 10 to 12% profit based on the sales price of the Capital markets for financing any type of land development are virtually non-existent; and real estate house. Utilizing a 12% factor, the following discount rate is "built-up".

2.0%	12.0%	17.0%
•		,
Safe Rate	Risk/Profit	Total

Although the above analysis is helpful in determining an appropriate discount rate, the market Note that 17.0% is only 3.4 times the safe rate. A factor of 5 would equate to a 25% discount rate. perspective is as important as the theoretical build-up of the rate.

California for its opinion regarding the appropriate discount rates for discounting cash flows to a present value for large landholdings planned for development. Their conclusions were drawn from their own experience in feasibility analysis and valuation of planned community development projects over the past 15 years including several current assignments. ERA states "The appropriate discount rate must reflect the rate of return that a typical buyer expects. Discount rates vary Economic Research Associate (ERA) was asked by the Metropolitan Water District of Southern depending upon the cash flow methodology and market expectation as to the following.

- 1) The availability and cost of capital.
 2) The degree of uncertainty in cost cs
 3) The degree of uncertainty in market
- The degree of uncertainty in cost estimates. The degree of uncertainty in market forecasts.

- The degree of uncertainty in entitlements.
- The overall perceived risk in the development. € & @
- The expected rate of appreciation in product prices, in relation to the inflation rates employed in the cash flow forecast.

However, I point it out for two reasons: 1) the \$72.8 million would take time to sell off; and 2) the judge indicated that the rate must reflect what the history and prospects of the sales are, the art market's general state, and the works themselves. In a way, this is similar to what must be considered in determining a discount rate for this project. That is, the appraiser must consider the real estate market in Orange County, the general real estate market as a whole, and the product itself. rate. The article, which dealt with an artist's estate, discussed what an appropriate discount rate would be for the artist's works. The sum of the individual values at the time of the artist's death was estimated at \$72.8 million. A dispute occurred between the IRS, who discounted the total between 10 and 37%, and the expert for the estate who proposed a 75% discount. The judge stated that the opinion of the estate's expert "defies common sense", yet the IRS' opinion was also unjustified. "Frustrated by the lack of a reliable expert opinion" the judge valued the art at a 50% discount. Obviously, this is not considered as a reliable discount rate to be considered in the subject case. An interesting article in the April 16, 1992 Wall Street Journal dealt with the concept of a discount It is worth noting that even the IRS proposed a 10 to 37% discount rate.

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planned communities were conducted. These include representatives from The McMillin Companies, American Beauty and Genstar Development Company. They have been involved in the in addition, interviews with developers who are considered to focus on the development of master development of master planned residential communities that exceed 3,000 units. They have been

successful in the last decade in the development of several large master planned residential communities. In these interviews, they confirmed that risk, location, and a host of factors influence their "target return". They also did not want to divulge specific pro-forma numbers, but did indicate that they would be targeting a 20 to 25% return.

In determining an appropriate discount rate, I have taken into consideration the fact that the subject project has sold over 1,750 lots since sales to merchant builders began (December 1998). I have also taken into account the number of units and the anticipated absorption.

I have concluded at a discount rate of 25% for the subject project.

DISCOUNTED CASH FLOW CONCLUSION

The preceding information has been imputed into a cash flow analysis, which is located in the Addenda of this report. I have concluded at a discounted cash flow value of \$78,497,000 (say) \$78,500,000 for the subject project based on this analysis.

PREMISE C – TALEGA ASSOCIATES LLC OWNERSHIP NOT IMPACTED BY THE NEED FOR ISSUANCE OF A U.S. ARMY CORPS OF ENGINEERS 404 PERMIT

RETAIL VALUE

The Talega property being appraised has been designated into four (4) different land use categories. The residential component of the project consists of three different categories. In addition there are Business Park uses.

A brief discussion of each residential land use category and resulting values are as follows.

Miraleste Product

Planning Area 3-G is an 8.6 acre site that is planned for homes ranging in price from \$457,000 to \$490,000 on 5,000 square foot lots.

I have considered the data listed as Residential Lot Sales (4000 to 6000 SF) in arriving at a value of \$175,000 per finished lot. The sales most helpful are the recent transactions in Ladera Ranch (Phase III) at \$175,446 to \$195,020 and the two sales within the subject project (Planning Areas 2-S and 2-Q, which sold at \$177,647 and \$160,143, respectively). I have concluded at a range of \$175,000 per finished lot.

Small Lots

Planning Area 2-W is currently used as the visitor center. There are excellent golf course views from this project. I have considered the Residential Lot Sales (2000 to 4000 SF) with the emphasis on Data Nos. 14 through 17, which are the recent sales in Ladera Ranch (Phase III), in arriving at a value of \$175,000 per finished lot.

Town Center

The project contains two planning areas within this designation. The density of this land use category ranges from 9.2 to 11.0 dwelling units per acrc. These are located in the Town Center area of the development, which is anticipated to occur in Periods 2 and 4 of the discounted cash flow. Base prices for this product type are anticipated to be from a low of \$200,000 to a higher of

ASSUMPTIONS MATRIX

Talega Valley

Talega CFD 80-2

Parcel's Land-Use Designations —

	DEV.	RES.	NET	PRICE	PRICE	NET
PHASE	┥	ACRES	ACRES	/ SQ. FT.	PER LOT	LOTS
	Н					
9	Н	8.6		Ī	170,000	38
	H	9.8)		38
	-					
	Н	2.4			175,000	27
	Н	2.40				27
	\vdash					
9	\vdash	17.6			100,000	114
9	Н	12			100,000	114
	\vdash	29.6				228
	-					
			49.59	9.50		
	Н		49.59			
		40.60	49.59			293

\$260,000. I have assumed only 228 units in the Town Center will be developed. This is due to the fact that after 2200 units the master developer would be required to extend Vista Hermosa off-sites (±\$115,000,000). The costs would not justify the additional units in the Town Center.

I have considered sales listed as Residential Lot Sales (2000 to 4000 SF) with the emphasis on Data Nos. 14 through 17, which are recent sales in Ladera Ranch (Phase III), in arriving at a finished lot price of \$100,000.

Business Park

There have been 5 transactions totaling 26.22 acres with the master developer currently owning 49.59 acres. I have collected sales listed in chart form and located in the Addenda of this report. There have been 5 sales within the subject project. These are Data Nos. 7 through 11. I have considered these sales in arriving at a price per square foot of \$9.50 for the Business Park lands owned by the developer.

70,225,847

Gen Dev Costs (before finance costs).

SUMMARY - RETAIL VALUE

The master developer owned parcels are listed on the facing page.

OTHER REVENUE

\$24.526

Present Value of the Property (millions)...

There are two other sources of revenue. These include monies currently in escrow with Santa Margarita Water District CFD 99-01. Approximately \$6,910,000 will be utilized for facilities in the area not requiring a U.S. Army Corps 404 Permit. These monies are anticipated to be disbursed within the first year. The monies are to be disbursed according to a covenant hetween SMWD 99-1 and Talega Associates, L.L.C.

In addition, there is an agreement for funding of Vista Hermosa Interchange ("Agreement"). This Agreement essentially cites the obligation of Talega in the construction of Vista Hermosa Interchange. Talega Associates, LLC "fair share" of the interchange is \$4,482,000. While this is the fair share, Talega Associates, LLC agreed to "front" the obligation of the costs (\$12,578,683). As

part of this Agreement a major landowner (Marblehead) has agreed to pay Talega Associates, LLC \$5,880,000 when they have approvals for their project. At the present time Marblehead is attempting to gain approvals through the Coastal Commission. I have estimated that these monies would occur in Period 4 (mid 2005) of the cash flow.

ABSORPTION PERIOD

In determining an absorption period for the subject project, I have reviewed a report prepared by Empire Economics (April 2001) on the subject project for Capistrano Unified School District. Empire Economics prepared an absorption period in which the absorption related to the end user (in most cases this would refer to the homebuyer; in the case of the commercial site, when the building was complete and leases or occupied by owner/user). This report relates to 1,200+ units while my discounted cash flow applies only to the lots owned by the master developer (293). In my discounted cash flow analysis I considered when the lands were sold to a merchant builder. As a result, I have taken into account that a merchant builder would acquire the lands approximately one year prior to the homes being built, sold and closing escrow. I have also considered the transactions that have occurred over the last 2-1/4 years. The first land transaction recorded in December 1998.

There have been 12 land transactions totaling 1,736 units since that time frame. This represents an annual absorption of 772 lots.

APPRECIATION/INFLATION RATES

I have reviewed the report, "Factors Underlying the Residual Value of Land", prepared by Empire Economics for Santa Margarita Water District, which dates back to 1985. It is my understanding this report was prepared on an annual basis and had housing price, housing price change, size of home, construction index square footage, total construction costs, land residual, and ratio land/total. The most interesting category for my analysis is the Land Residual category. The table indicates a time period ranging from 1985 to 1997. This period included several "boom to bust" cycles for the real catate market. Over the 12-year period I calculated a 4.92% compound rate for the land residual category. In addition I have considered the price appreciation of housing as measured by Data quick. Their last 3 years have ranged from 10 to over 20%. The most recent statistics (January 2001)

indicate a slower appreciate rate. I have considered a 5% factor for appreciation in the case of the subject cash flow, which is a 2.5-year time period.

CONSTRUCTION COSTS

I have consulted with a civil engineer, Gary Laughlin, as well as reviewed data from Engineering New Record (wxw.enr.com). Over a 6-year period construction costs for the Long Beach-L.A. area have increased by 3.0%. I have considered 4% for the subject cash flow.

REMAINING COST OF DEVELOPMENT

The remaining cost of development includes the remaining backbone infrastructure as well as the finished lot cost that will bring the residential lots to a finished lot condition. Excluded from these costs are bridge costs and extension of Vista Hermosa off-sites. These approximate \$24,000,000 in costs. These costs are excluded since they would not be required for the development and sale of the planning areas that are being valued (Town Center, 3-G and 2-W). A significant off-site cost is triggered when the 2200 building permit level is reached (the extension of Vista Hermosa estimated at \$15,000,000). As a result I have calculated the number of units in Villages I and 2 and Planning Area 3-G in determining the number of units remaining for development prior to reaching the 2200 unit level. I then adjusted the number of units that would be developed in the Town Center. Instead of 329 units, I have estimated that 228 units would be constructed to reach 2199 units. The basis for the calculation is that the market would not spend \$15,000,000 in order to develop an additional 101 units in the Town Center.

OTHER COSTS - VISTA HERMOSA INTERCHANGE

Talega Associates, LLC has entered into an agreement to commit to fund \$12,157,683 of a \$17,500,000 interchange project (Vista Hermosa). The sources of and obligation of the \$12,157,683 are listed on the following page.

AMOUNT
\$12,157,684
\$ 4,482,000
\$ 5,880,000
\$ 1,250,000
\$ 545,684

I will consider Items "C" and "E" as an obligation for Talega (\$6,425,684). Item "D" is a federal funding source, which I have assumed is a guaranteed source of funds. Items "B" through "E" represent the total amount (\$12,157,684) of this Agreement.

Correspondence received from RBF Consulting, dated August 13, 2001, is included in the Addenda of this report. This letter relates to the Talega Master Development Cost Budget Summary and states the following.

"RBF Consulting has been retained by Talega Associates, LLC to assist in the preparation of the Budget Summary for the Talega Development. Our involvement has been in preparing quantities summary, which includes linear footage takeoffs of Talega's infrastructure improvements and grading estimates. We believe that the Budget Summary, which was compiled with assistance of other consultants on the Talega Development team, is generally consistent and comparable to actual construction costs. This estimate also includes the three proposed bridges across the Segunda Deschecha, the offsite extension of Calle Saluda (west of the Talega boundary to Avenida La Pata) and Avenida La Pata (north of Avenida Vista Hermosa to Calle Saluda).

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The in-tract costs have been prepared by The Moote Group, a copy of which has been provided for my review. The Moote Group has prepared costs on the majority of the planning areas. In some cases, I have taken the average cost for the land use where a specific planning area had not been costed (e.g. five planning areas for which costs have been prepared; for the one planning area for which costs had been prepared). The detailed cost estimates prepared by The Moote Group have been retained in my files.

LOAN DRAW

I have assumed that the master developer would fund the entire development and repay the loan from the proceeds of the sales of the lots. I have assumed an 8.0% interest rate and a 90% of revenues repayment.

LAXES

A schedule relating to the master developer obligation for ad valorem property taxes, Santa Margarita Water District CFD No. 99-1 special taxes, and the subject CFD special tax is located in the Addenda.

ONE PERCENT BUILDER AD FEE

The master developer is entitled to 1% of the completed home sales price as a marketing fee. I have calculated this by using average prices for the different tracts. Please refer to the schedule in the Addenda.

DISCOUNT RATE

The discount rate involves several factors, which include the time value of money, the variety and magnitude of different risks associated with the project, and profit that any developer would expect in developing the project. It should be noted that discount rates (particularly in the case of land development projects) are not easily derived from real estate market data. Indeed, if one could abstract a discount rate from a previous land development project, it in all probability would not be relevant in today's marketplace. That is, the historical perspective of a master planned project that began 5 to 10 years ago and sold out last year would, in my opinion, not be relevant. Market

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- As previously discussed a safe rate of 5.0%. Risks associated not only with this project, but a rate that reflects the burdens and benefits of real estate investment. - 2

Capital markets for financing any type of land development are virtually non-existent; and real estate residential values are at best stable. We have observed in the marketplace that the typical merchant builder buying fully entitled finished lots who is building a housing development of say 50 to 100 houses (the total in a given tract) expects a minimum 10 to 12% profit based on the sales price of the house. Utilizing a 12% factor, the following discount rate is "built-up".

5.0% 12.0% Risk/Profit Safe Rate

Note that 17.0% is only 3.4 times the safe rate. A factor of 5 would equate to a 25% discount rate. Although the above analysis is helpful in determining an appropriate discount rate, the market perspective is as important as the theoretical build-up of the rate.

140

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- The overall perceived risk in the development.
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A more recent article in The Wall Street Journal (Jonald's Wealth Estimates Trump Reality January 19, 2000) also addressed discount rates. In this article, which addressed Donald Trump's wealth, the author notes "but conservative accounting would require Mr. Trump to discount by 20 to 30%, say real estate investors (the \$250 million he expects from Trump World Towers), as the money is three years away and may be reduced by a slowdown or failure to finish the building on time (risk and time).

In addition, interviews with developers who are considered to focus on the development of master planned communities were conducted. These include representatives from The McMillin Companies, American Beauty and Genstar Development Company. They have been involved in the development of master planned residential communities that exceed 3,000 units. They have been successful in the last decade in the development of several large master planned residential communities. In these interviews, they confirmed that risk, location, and a host of factors influence their "target return". They also did not want to divulge specific pro-forma numbers, but did indicate that they would be targeting a 20 to 25% return.

In determining an appropriate discount rate, I have taken into consideration the fact that the subject project has sold over 1,750 lots since sales to merchant builders began (December 1998). I have also taken into account the number of units and the anticipated absorption for these Planning Areas as well as the fact no additional environmental permits are required for development.

I have concluded at a discount rate of 20% for the subject project.

DISCOUNTED CASH FLOW CONCLUSION

The preceding information has been imputed into a cash flow analysis, which is located in the Addenda of this report. I have concluded at a discounted cash flow value of \$20,092,000 (say) \$20,000,000 for the subject project based on this analysis.

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SECTION II - SUMMARY

This section involved Talega Associates, LLC ownership. The estimated values under three premises are as follows.

Premise A is the valuation of Talega Associates, LLC ownership including all Age Restricted lands. This involved Villages 3, 4, 5, 6 and Planning Area 2-C. The estimated value for these lands is:

\$83,725,000

Premise B is the valuation of Talega Associates, LLC ownership excluding all Age Restricted lands. These areas reflect the portion of the project that would not be subject to a special tax of CUSD 90-2. The estimated value for these lands is:

\$78,500,000

Premise C is the valuation of Talega Associates, LLC ownership of all lands that could be developed without an additional U.S. Army Corps of Engineers 404 Permit. This involved Planning Areas 2-W and 3-G, the Town Center and Business Park lands. The estimated value of these lands is:

\$20,000,000

SECTION III

INDIVIDUALLY OWNED PROPERTIES

This section relates to a value for the individually owned homes. In estimating such a value, I have relied on the subject sales as well as other sales that have occurred within Talega. A summary is as follows.

Planning	Total	Recorded
Area	Units	Transactions
1D/IE	89	19
1F/1G	80	76
1H/11	108	108
2	47	39
2B	14	13
2F	98	89
2G	140	001
2H	120	108
21	105	16
2M/2P	132	12
Totals		682

On the following pages, the lot and tract numbers of each individually owned property are listed by project. Also included are the closing dates and sales price.

			_		_	_																- "																					
				Date	9/28/00	10/5/00	10/5/00	10/6/00	10/12/00	10/13/00	10/13/00	10/16/00	10/16/00	10/17/00	00//1/01	10/19/00	00/15/01	10/31/00	10/31/00	11/2/00	002/11	00/6/11	00/04/14	00/01/11	11/14/00	11/15/00	11/16/00	11/17/00	11/28/00	12/15/00	12/18/00	00/61/21	12/20/00	42/24/00	12/28/00	12/20/00	1/10/04	2/0/01	2/20/01	3/14/01	5/4/01		
			;	Sale Price	519,488	510,575	514,000	530,185	624,161	550,664	588,525	586,516	504,823	492,471	513,335	449,000	581,572	537,518	526,123	587,398	520,285	654,900	000,624	626,567	640.637	758.337	595,224	735,920	641,920	619,000	879,990	609,242	00,000	000,000	707,004	101,044	120,000	70,004	578 192	692,990	810,000	45,184,147	
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Plan 2	470,000	588,652	580,765	**	38	39	4	4	42	43	44	45	46	47	48	49	8	51	25	જ	3	22	8	57	8	6 6	3 2	62	63	4	65	89	67	89	8 1	₽ ;	1	72	2;	4, K	76		148
Plan 1	18 449,000	583,292	583,894	Date	1/26/00	1/27/00	1/28/00	1/28/00	1/31/00	1/31/00	2/1/00	2/8/00	2/8/00	2/9/00	2/10/00	2/15/00	1/15/00	3/8/00	3/8/00	3/28/00	6/12/00	6/13/00	6/14/00	8/15/00	6/15/00	6/16/00	0/10/00	6/19/00	6/19/00	6/26/00	6/30/00	6/30/00	1/6/00	7/11/00	1/14/00	7/14/00	7/14/00	7/18/00	7/19/00	9/27/00			
92			578,882	Sale Price	614,610	626,805	619,670	698,321	515.460	567.084	631,805	575,013	514,381	565,201	494,525	467,407	560,424	532,307	496,320	570,338	564,696	512,248	469,810	536,913	470,000	539,620	009,800	555,033	500.053	619,382	635,992	505,000	488,677	547,446	635,515	708,634	627,078	617,984	631,150	492,732			
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							Date	10/13/00	10/13/00	10/11/00	10/17/00	10/17/00	10/18/00	10/18/00	10/18/00	10/18/00	10/19/00	10/20/00	12/5/00	12/5/00	00/1/21	00,77	00/21/21	12/13/00	12/14/00	12/15/00	12/15/00	12/18/00	12/19/00	12/21/00	12/26/00	12/26/01	10/01/2	6/12/04	8/22/01	6/22/01	6/28/01	6/29/01					
							Sale Price	433,795	458,975	400,150	464,973	383,020	411,723	438,780	438,139	465,140	435,335	481,681	499,445	511,000	518,500	528,536	524,659	504,105	000,104	450 690	449,353	528,834	421,118	486,633	492,425	486,990	068,850	000,080	339,990	402,300	20,404	462,900 533 785	585 992	31.438.185			
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	,	ò	383,019 639,990	469,227	454,		Sale Price	407 515	428 655	415 013	414.853	423.491	437,752	420,345	452,085	504,815	423,555	\$	449,342	408,626	48	566	490	498	418	455	447	226	406	517	415	469	454	402	495	383	456	512	427				
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	erra Linda	Recorded Transactions	Winimum Sale Price	Average Sale Price	Median Sale Price		Status		DOS DOS	50	200	Plos	P C	plos	Sold	Sold	Plos	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	DION O		Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold				
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Minimum Sale Price 17, 2, 25, 39, 31, 68 Handlian Sale Price 446, 89, 20, 295, 995, 20, 295, 995, 20, 295, 995, 20, 20, 295, 995, 20, 20, 295, 995, 20, 20, 295, 995, 20, 20, 295, 995, 20, 20, 295, 995, 20, 20, 295, 995, 20, 20, 20, 20, 20, 20, 20, 20, 20, 20			Recorded Transactions	68	Plan 1	Plan 2	Plan 3	Totals			
ce 273,220 273,220 273,220 320,295 ce 496,830 464,589 496,830 372,987 372,987 373,987 plan 334,208 377,485 376,980 376,890 378,892 373,987 376,090 3 357,208 377,485 377,987 377,1455 376,992 376,992 376,000 </th <th></th> <th></th> <th></th> <th></th> <th>12</th> <th>25</th> <th>31</th> <th>68</th> <th></th> <th></th> <th></th>					12	25	31	68			
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Sold 3 Acta (19) Bate Bot (19) Status Flan Sale Price Bate Bot (11) Sold 3 Add (20) Add (20) 3 Add (20)	edlan	Sale Price		357,208	357,805	358,940	353,885				
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2 Solid 3 496,830 11/10/100 37 902 Solid 3 333,625 1 Solid 2 376,915 11/14/00 38 803 Solid 3 320,295 2 Solid 3 408,805 11/16/00 40 702 Solid 3 335,210 3 Solid 2 414,870 11/16/00 41 802 Solid 3 335,210 3 Solid 2 299,585 11/20/00 42 903 Solid 3 345,965 3 Solid 2 299,585 11/20/00 42 903 Solid 3 345,965 3 Solid 2 299,585 11/20/00 47 1701 Solid 1 392,525 3 Solid 2 340,906 47 1701 Solid 1 392,411 3 Solid 2 340,906 47 1701 Solid<	103	Sold	3	423,100	11/9/00	36	801	Sold	3	345 000	212216
1 Solid 2 376,915 11/14/00 38 803 Solid 3 320,295 2 Solid 3 408,805 11/16/00 40 702 Solid 2 319,700 3 Solid 2 408,805 11/16/00 41 802 Solid 3 335,410 2 Solid 2 299,885 11/20/00 42 903 Solid 3 345,965 3 Solid 3 322,740 11/20/00 44 1501 Solid 3 345,965 3 Solid 1 300,642 11/20/00 45 1601 Solid 3 345,969 2 Solid 1 300,642 11/20/00 47 1701 Solid 3 344,122 2 Solid 1 295,995 11/27/00 48 2701 Solid 3 444,125 3 Solid 1 295,995 11/28/00 51 200 3 351,320 1 Solid 2 34,70 11/28/00 52 2601 3 444,125 2 Solid 1 304,045 11/28/00 52 2601 3 444,125 3 Solid	102	Sold	က	496,830	11/10/00	37	302	Sold	· m	333 625	21236
2 Solid 3 408,805 11/16/00 39 901 Solid 2 319,700 3 Solid 3 401,360 11/16/00 40 702 Solid 3 335,410 11 Solid 2 249,585 11/20/00 42 903 Solid 3 335,502 22 Solid 3 322,740 11/20/00 43 601 Solid 3 345,502 33 Solid 2 30,542 11/20/00 44 1501 Solid 1 340,346 33 Solid 1 330,642 11/22/00 44 1501 Solid 1 340,346 30 Solid 2 347,70 11/22/00 48 2702 Solid 1 340,425 30 4 1 501 2 342,725 341,729 34 342,725 30 4 1 501 2 344,125 344,116 </td <td>201</td> <td>Sold</td> <td>2</td> <td>376,915</td> <td>11/14/00</td> <td>38</td> <td>803</td> <td>Soid</td> <td>n</td> <td>320,295</td> <td>2/26/0</td>	201	Sold	2	376,915	11/14/00	38	803	Soid	n	320,295	2/26/0
3 Solid 3 401,360 11/16/00 40 702 Solid 3 335,410 4 Solid 2 249,385 11/16/00 41 802 Solid 3 342,720 3 Solid 2 299,385 11/20/00 42 903 Solid 3 345,265 33 Solid 2 330,582 11/20/00 44 1501 Solid 1 340,340 33 Solid 2 340,090 11/20/00 45 1601 Solid 1 340,492 11 Solid 1 296,995 11/22/00 46 1702 Solid 1 340,495 11 Solid 1 296,995 11/22/00 49 2703 Solid 1 342,422 11 Solid 1 204,045 11/22/00 49 2703 Solid 1 342,422 11 Solid 1 340,045 11/22/00	202	Sold	ъ	408,805	11/16/00	39	901	Sold	2	319,700	2/27/0
4 Solid 2 414,870 11/16/00 41 802 Solid 3 342,726 9 Solid 2 299,585 11/20/00 42 903 Solid 3 339,265 35 Solid 3 335,220 11/21/00 44 1501 Solid 3 395,252 11 Solid 1 330,642 11/21/00 45 1601 Solid 1 392,525 11 Solid 1 330,642 11/21/00 46 1701 Solid 1 392,625 11 Solid 1 295,995 11/22/00 47 1701 Solid 1 394,112 11 Solid 1 295,995 11/22/00 48 2701 Solid 1 394,112 11 Solid 1 295,995 11/22/00 48 2701 Solid 1 392,225 11 Solid 1 367,496 11/22/00 <td>203</td> <td>Sold</td> <td>က</td> <td>401,360</td> <td>11/16/00</td> <td>40</td> <td>702</td> <td>Sold</td> <td>6</td> <td>335,410</td> <td>2/28/0</td>	203	Sold	က	401,360	11/16/00	40	702	Sold	6	335,410	2/28/0
11 Solid 2 299,585 11/20/100 42 903 Solid 3 339,205 25 Solid 3 322,740 11/20/100 44 1501 Solid 3 345,965 34 Solid 3 335,520 11/21/100 45 1601 Solid 1 392,525 31 Solid 1 330,642 11/22/100 46 1702 Solid 1 392,936 2 Solid 1 295,995 11/22/100 48 2701 Solid 1 342,420 2 Solid 1 295,995 11/22/100 49 2703 Solid 1 342,420 3 Solid 2 345,770 11/29/100 51 2702 Solid 2 344,160 3 Solid 1 346,940 11/29/100 51 1802 Solid 3 344,160 4 Solid 1 346,940 11/29/	204	Sold	7	414,870	11/16/00	4	803	Sold	6	342,720	2/28/0
22 Sold 3 322,740 11/20/00 43 601 Sold 3 345,965 33 Sold 3 335,520 11/21/00 44 1501 Sold 1 392,525 34 Sold 2 330,642 11/22/00 45 1601 Sold 1 392,525 35 330,642 11/22/00 47 1701 Sold 2 358,940 35 Sold 1 295,995 11/22/00 48 2701 Sold 2 444,125 35 Sold 2 350,950 11/22/00 50 2703 Sold 3 444,125 35 Sold 1 360,4645 11/22/00 50 2704 Sold 3 444,125 35 Sold 1 360,4645 11/22/00 50 2704 Sold 3 444,125 35 Sold 1 360,4645 11/22/00 50 2704	1001	Sold	5	299,585	11/20/00	42	903	Sold	က	339,205	2/28/0
335.520 11/21/00 44 1501 Sold 1 430,340 14 Sold 2 307,155 11/21/00 45 1601 Sold 1 392,525 11 Sold 1 330,642 11/22/00 45 1601 Sold 1 392,525 11 Sold 1 295,995 11/22/00 48 2701 Sold 1 354,470 12 Sold 2 352,725 11/22/00 49 2703 Sold 3 432,425 13 Sold 2 352,725 11/22/00 50 2704 Sold 3 444,125 14 Sold 1 364,045 11/29/00 51 2702 Sold 3 444,125 15 Sold 1 366,950 11/29/00 52 2601 3 444,165 14 Sold 1 366,950 11/29/00 52 2601 3 444,165 <td>1002</td> <td>Sold</td> <td>3</td> <td>322,740</td> <td>11/20/00</td> <td>43</td> <td>601</td> <td>Sold</td> <td>6</td> <td>345,965</td> <td>3/16/0</td>	1002	Sold	3	322,740	11/20/00	43	601	Sold	6	345,965	3/16/0
4 Sold 2 307,155 11/21/00 45 1601 Sold 1 392,625 11 Sold 1 330,642 11/22/00 46 1702 Sold 2 358,940 12 Sold 2 340,090 11/22/00 48 2701 Sold 2 442,420 2 Sold 2 352,725 11/28/00 50 2704 Sold 2 444,120 2 Sold 1 304,045 11/28/00 50 2704 Sold 3 444,150 2 Sold 1 361,498 11/29/00 52 2601 Sold 3 444,160 1 Sold 1 36,985 11/29/00 52 2601 Sold 3 444,160 2 Sold 1 36,986 11/29/00 52 2601 Sold 3 444,160 2 Sold 1 36,986 11/29/00 52 2601 Sold 3 44,160 2 Sold 1 36,096 11/29/00 52 2601 Sold 3 44,160 3 Sold 1 422,000 11/29/00 52 2601 Sold 3 44,160	1003	Sold	က	335,520	11/21/00	44	1501	Sold		430,340	3/21/0
11 Sold 1 330,642 11/12/100 46 1702 Sold 2 358,940 12 Sold 2 340,090 11/12/100 47 1701 Sold 1 354,112 13 Sold 1 252,725 11/12/100 49 2703 Sold 2 444,125 14 Sold 1 364,045 11/28/00 50 2704 Sold 3 444,125 15 Sold 1 364,045 11/28/00 52 2601 Sold 3 444,125 1 Sold 1 364,046 11/28/00 52 2601 Sold 3 444,125 2 Sold 1 366,956 11/29/00 52 2601 Sold 3 444,125 3 Sold 1 36,956 11/29/00 52 2601 Sold 3 343,445 4 Sold 1 11/29/00 52 1803 </td <td>004</td> <td>Sold</td> <td>5</td> <td>307,155</td> <td>11/21/00</td> <td>45</td> <td>1601</td> <td>Sold</td> <td>-</td> <td>392,525</td> <td>3/26/0</td>	004	Sold	5	307,155	11/21/00	45	1601	Sold	-	392,525	3/26/0
2 Solid 2 340,090 11/22/00 47 1701 Solid 1 354,112 2 Solid 1 295,995 11/27/00 48 2701 Solid 2 442,425 2 Solid 2 352,725 11/27/00 49 2703 Solid 3 444,125 2 Solid 1 364,045 11/28/00 51 2704 Solid 3 444,160 4 Solid 2 350,950 11/28/00 52 2601 Solid 3 444,160 4 Solid 1 361,498 11/28/00 52 2601 Solid 3 444,160 5 Solid 1 326,611 11/29/00 52 2601 3 444,160 2 Solid 1 326,611 11/29/00 52 1802 Solid 3 444,160 2 Solid 1 326,611 11/29/00 55 1803 Solid 3 444,160 2 Solid 1 406,087 11/29/00 56 1902 Solid 3 444,160 2 Solid 2 422,000 11/24/01 56 1902 Solid 3 444,160 <td>5</td> <td>Sold</td> <td></td> <td>330,642</td> <td>11/22/00</td> <td>46</td> <td>1702</td> <td>Sold</td> <td>7</td> <td>358,940</td> <td>3/27/0</td>	5	Sold		330,642	11/22/00	46	1702	Sold	7	358,940	3/27/0
11 Sold 1 295,995 11/27/00 48 2701 Sold 2 442,426 12 Sold 2 352,725 11/28/00 50 2 444,125 11 Sold 1 364,486 11/28/00 52 200 3 444,125 12 Sold 1 361,486 11/28/00 52 2601 3 444,125 13 Sold 1 361,486 11/28/00 52 2601 3 444,125 14 Sold 2 350,956 11/28/00 52 2601 3 444,125 2 Sold 1 326,611 11/29/00 52 1803 50ld 3 343,745 2 Sold 1 326,611 11/29/00 55 1803 50ld 3 343,145 2 Sold 1 406,087 11/24/01 56 1902 50ld 3 346,189 3	1102	Sold	2	340,090	11/22/00	47	1701	Sold	_	354,112	3/28/0
2 Sold 2 352,725 11/27/00 49 2703 Sold 3 432,425 1 Sold 2 354,770 11/28/00 50 2704 Sold 2 444,125 2 Sold 1 304,045 11/28/00 51 2702 Sold 3 444,160 4 Sold 2 350,950 11/28/00 52 2601 Sold 3 45,685 2 Sold 1 326,611 11/29/00 54 1802 Sold 3 34,125 2 Sold 1 326,611 11/29/00 55 1803 Sold 3 342,125 2 Sold 1 326,611 11/29/00 55 1803 Sold 3 342,125 2 Sold 1 406,087 11/29/01 56 1902 Sold 3 342,125 3 Sold 2 422,000 11/24/01 59 1904 Sold 3 346,785 4 Sold 2 460,325 11/24/01 61 2003 3 344,70 3 344,70 Sold 1 450,667 11/26/01 62 2004 3 344,05 3 344,05<	201	Sold	-	295,995	11/27/00	48	2701	Sold	2	442,420	3/29/0
2 354,770 11/28/100 50 2704 Sold 2 444,126 2 Sold 1 304,045 11/28/100 51 2702 Sold 3 444,160 4 Sold 1 364,045 11/28/100 52 2601 3 444,160 4 Sold 1 326,611 11/28/100 54 1801 Sold 3 343,145 2 Sold 2 331,505 11/28/100 55 1803 Sold 3 342,125 2 Sold 1 326,611 11/28/101 56 1902 Sold 3 342,125 3 Sold 1 406,087 1/22/101 56 1902 Sold 3 342,125 4 Sold 2 4203 501 2 464,589 3 360,315 3 5 Sold 3 417,005 1724/01 60 1904 Sold 3	202	Sold	7	352,725	11/27/00	49	2703	Sold	3	432,425	3/30/0
2 Solid 1 304,045 11/28/00 51 2702 Solid 3 444,160 1 Solid 1 364,048 11/29/00 52 2601 3 456,885 1 Solid 1 356,950 11/29/00 53 1801 Solid 3 343,445 2 Solid 2 331,505 11/29/00 56 1803 Solid 3 343,445 2 Solid 1 406,087 1/22/01 56 1903 Solid 3 342,125 1 Solid 2 422,000 1/22/01 57 2603 Solid 3 342,125 5 Solid 2 422,000 1/22/01 57 2603 Solid 3 342,125 5 Solid 3 447,001 60 1904 Solid 3 346,700 5 4 458,940 1/24/01 60 1904 Solid 3<	301	Sod	7	354,770	11/28/00	20	2704	Sold	2	444,125	3/30/0
4 Sold 1 361,488 11/29/00 52 2601 Sold 3 456,895 4 Sold 2 326,950 11/29/00 53 1801 Sold 3 45,320 5 Sold 1 326,811 11/29/00 54 1802 Sold 3 43,745 5 Sold 2 406,087 11/29/00 55 1803 Sold 3 43,745 5 Sold 2 422,000 11/22/01 56 1902 Sold 3 46,359 5 Sold 3 417,005 1/22/01 59 1902 Sold 3 46,359 5 Sold 1 458,940 1/24/01 59 1901 Sold 3 348,470 5 Sold 1 456,940 1/24/01 60 1901 Sold 3 348,470 5 Sold 2 460,325 1/26/01 61 2003 Sold 3 348,470 5 Sold 3 43,880 1/30/01 62 2004 2 375,600 3 35,885 5 Sold 3 45,886 3 202 2004 2 375,600 3 344,050	305	Sold	. .	304,045	11/28/00	51	2702	Sold	e	444,160	4/4/01
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1 Sold 1 326 61 11/23/00 54 1802 Sold 3 343,745 2 Sold 2 331,505 11/29/00 55 1803 Sold 2 362,395 1 Sold 1 422,000 1/22/01 56 1903 Sold 3 342,125 8 1 Sold 2 422,000 1/22/01 59 1904 Sold 2 464,315 8 Sold 3 439,125 1/24/01 60 1901 Sold 2 364,315 8 3 458,940 1/24/01 60 1901 Sold 3 348,476 8 3 460,325 1/26/01 61 2003 Sold 3 348,776 8 4 460,325 1/26/01 62 2004 Sold 3 35,885 8 4 458,980 13001 62 2004 Sold 3 35,88	5	Sold	7	350,950	11/29/00	53	1801	Sold	٣	351,320	4/25/0
2 Solid 2 331,505 11/29/00 55 1803 Solid 2 362,395 1 Solid 1 406,087 1/122/01 56 1903 Solid 3 342,125 1 Solid 3 422,000 1/122/01 57 2603 Solid 3 464,589 2 Solid 3 439,125 1/24/01 59 1904 Solid 3 364,589 Solid 1 458,940 1/24/01 60 1901 Solid 3 348,470 Solid 2 460,325 1/26/01 61 2003 Solid 3 348,470 Solid 3 453,880 1/30/01 62 2004 Solid 3 35,885 Solid 3 453,880 1/30/01 64 2101 Solid 3 35,885 Solid 2 358,985 2/13/01 65 2102 Solid 3 35,885 <td>401</td> <td>Sold</td> <td>-</td> <td>326,611</td> <td>11/29/00</td> <td>24</td> <td>1802</td> <td>Sold</td> <td>3</td> <td>343,745</td> <td>4/25/0</td>	401	Sold	-	326,611	11/29/00	24	1802	Sold	3	343,745	4/25/0
Sold 1 406,087 1/22/01 56 1903 Sold 3 342,125 Sold 2 422,000 1/22/01 57 2603 Sold 2 464,589 Sold 3 417,005 1/24/01 59 1904 Sold 2 36,315 Sold 1 458,940 1/24/01 61 2003 Sold 3 348,475 Sold 2 460,325 1/26/01 61 2004 Sold 3 348,476 Sold 3 453,980 1/24/01 62 2004 Sold 3 348,476 Sold 3 453,886 1/30/01 62 2004 Sold 3 35,885 Sold 3 453,886 1/30/01 64 2101 Sold 2 35,886 Sold 3 358,985 2/13/01 65 2102 Sold 3 344,050 Sold 2 330,895 <t< td=""><td>405</td><td>Sold</td><td>7</td><td>331,505</td><td>11/29/00</td><td>22</td><td>1803</td><td>Sold</td><td>7</td><td>362,395</td><td>4/25/0</td></t<>	405	Sold	7	331,505	11/29/00	22	1803	Sold	7	362,395	4/25/0
Solid 2 422,000 1/22/01 57 2603 Solid 2 464,589 Solid 3 417,005 1/23/01 58 1902 Solid 3 360,315 Solid 1 486,940 1/24/01 69 1904 Solid 1 346,000 Solid 2 460,325 1/26/01 61 2003 Solid 3 348,70 Solid 3 453,880 1/30/01 62 2004 Solid 3 353,885 Solid 3 453,013 1/30/01 64 2101 Solid 2 375,600 Solid 3 453,013 1/30/01 65 2102 Solid 3 344,050 Solid 3 356,986 2/13/01 66 2103 Solid 3 344,050 Solid 2 358,986 2/14/01 67 2201 Solid 2 273,220 Solid 2 35	5 5	Sold		406,087	1/22/01	26	1903	Sold	က	342,125	4/25/0
Sold 3 417,005 1/23/01 58 1902 Sold 3 360,315 Sold 1 458,940 1/24/01 60 1904 Sold 2 355,475 Sold 2 466,325 1/26/01 61 2003 Sold 3 348,470 Sold 1 450,667 1/26/01 62 2004 Sold 3 348,70 Sold 3 453,880 1/30/01 63 2002 Sold 3 353,885 Sold 3 453,01 64 2101 Sold 2 375,600 Sold 3 35,01 1/30/01 65 2102 Sold 3 344,050 Sold 3 358,885 2/13/01 66 2103 Sold 3 344,050 Sold 3 358,985 2/14/01 67 2201 Sold 3 35,010 Sold 2 359,570 2/16/01	5 50	Sold	7	422,000	1/22/01	25	2603	Sold	2	464,589	4/25/0
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Plan	Totals	39																																													
	6	ဂ	652,575	817,500	716,963	702,000																																									
	Plan 2	71	620,500	846,587	691,112	675,118																																									
	Plan 1	71	569,750	917,100	671,565	644,635	Date	3/8/00	3/10/00	3/23/00	3/24/00	3/27/00	3/28/00	3/31/00	4/14/00	4/20/00	4/24/00	4/28/00	4/28/00	5/1/00	5/23/00	5/23/00	5/31/00	9/5/00	6/2/00	00/5/9	00/6/9	6/13/00	6/16/00	00/53/0	8/21/00	9/1/00	9/15/00	9/15/00	9/25/00	9/26/00	9/27/00	9/2//00	00/67/6	1722/00	2/44/00	00/15/07	2/2 //00	4/30/01			
	39		569,750	917,100	695,040	685,000	Sale Price	635,000	670,000	665,000	678,930	652,000	635,000	639,270	846,587	733,953	686,000	817 500	653 000	685,000	784,208	702,000	678,235	650,000	702,400	671,498	793,990	695,000	700,065	275 000	569,750	652,575	602,905		-	-		730,278		٠,	•	•		٠,	27,106,579	149	
	tions		.				Plan	-	5	က	က	2	-	-	۰ 7	- ,	י ר	4 m	2	e	3	က	5	-	ტ -	-	en (n (n c	۰, ۱	າ ←	٣		2	2	-	~ ·		· •	٠,	, (, (, ,	- i	Ñ		
	Recorded Transactions	Minimum Cate Dailer	Sale Pric	Sale Price	Myerage Sale Price	aie Price	Status	Sold	plos 1	ממוס	000	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold Sold	500	Sold	Sold	Sold	Sold	Sold	Sold	DIOS.	Diog O	Sold	200	200	200	200	2010									
Pacifica	Recorde	Minimum		maximum	Average	Median Sale Price	Lot No.	5	20	52	27	56	22	5 8	24	3 6	67 JO	3 5	34	23	21	32	4	43	9 ;	. 4	42	9 6	55 55	3 %	} ∞	6	9	37	~ `	7		t w	36	~	94	47	÷ ÷	2			
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Sold 3 399,667 10/20/00 88 41 Sold 1 450,561 5/7/01	2 433,617 10/25/00 89 93 Sold 2 482,345	2 402,531 10/25/00 90 42 Sold 2	414,503 10/26/00 91 96 Sold 2 443,485	1 417,485 10/26/00 92 95 Sold 2 431,650	3 473,349 10/27/00 93 92 Sold 2	Sold 10/30/00 94 97 Sold	5 blog to 30 course to 10,086 3	2 414,703 11/14/00 93 91 300 3 12,000 3 20,000 3 20,000 3 20,000 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	415,310 11/16/00 96 94 504d 1 420,373	416,383 11/20/00 97 90 Sold 1 4U3,9U9	1 409.791 11/21/00 98 99 Sold 1 414,841	2 276 540 11/22/00 99 98 Sold	001 001 00/02/11 026 026 6	41.647.192																																		•	152
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									Dian Sale Price Date	000 000	392,050	420,053	451,059 1	2 469,376 12/1/00	3 423,674 12/4/00	3 417,015 12/5/00		٠.,	2 384,505 12/18/00		•	_									1 389,472 2/20/01	2 401,436 2/21/01					•	430.038	430,030	2/2,044		409,670	487,233		477,987			3 453,144 5/4/01	
	Plan	lotals	3						Ctatue	1	Sold	Sold	Sold	Sold	Sold	Sold	Sold	plos	plos	5 60) (D 70	000	DO 0	00 c	Sold	Sold	Sold	Sold	Sold	Sold	pos d	Dio C	DOS 9	one d	Sold For	200	2010	DIOS (Sold	Sold	Sold	Sold	Soid	Sold	Sold	Sold	Sold	
	;	Plan 3	14	389,116	512,651	426,430	416.376		ON to 1 in	201	9	83	53	30	25	<u>ج</u>	. 6	3 6	5 6	2 2	2 5	2 9	4 6	2 :	3	62	35	33	6	63	48	47	G	đ ,	ខ្ល	6 6	8 3	\$ 3	\$	37	29	99	38	4	33	6	43	7	
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		Plan 1	54	348,080	450,561	391,999	300.458	001		Date	00/1/1	00/1/2	00/2/2	2/10/00	7/11/00	2/42/00	7/12/00	11300	111100	00//1//	00/81/1	2/19/00	7/19/00	1/26/00	7/27/00	7/27/00	7/31/00	8/2/00	8/4/00	8/4/00	8/7/00	8/8/00	8/8/00	9/14/00	9/15/00	9/19/00	9/29/00	9/21/00	9/22/00	9/26/00	9/26/00	9/27/00	9/29/00	9/29/00	9/29/00	10/17/00	10/18/00	10/18/00	
		100		348,080	512,651	416.472	440 035	410,335		Sale Price	393,225	350,345	389 116	200,608	390,000	542,654	169,216	379,007	104,047	404,318	404,847	450,448	411,554	434,257	387,880	426,349	393,639	370,880	382,763	376,469	406,259	405,632	402,402	426,962	390,497	392,095	425,615	391,025	400,401	410,424	422,324	395,661	451,993	413,825	398,673	370,926	392,822	442 829) i
	Seaside	Recorded Transactions		Minimum Sate Price	Maximum Sale Price	Average Sale Price	Source Composition	Median Sale Price		Lot No. Status Plan	87 Sold 3			2 1	Dio C	200			_	9	5	11 7 Sold 3	12 8 Sold 3	13 10 Sold 3	9 Sold 2	15 11 Sold 2	16 84 Sold 3	82	18 13 Sold 1	83	20 12 Sold 3	81 Sold 1	22 82 Sold 3		79	7.7	14	15 Sold	28 78 Sold 2	29 17 Sold 2	30 18 Sold 3		16 Sold	33 20 Sold 3	7	Sold Sold	3 75	; :	

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	Kecorded Iransactions	e irans	actions	. 61	Plan 1	٩	Plan 3	-	en:				39		Sold		283,975	11/6/00	25	? -	Ploy	, .	201.130	10/10/10
•					27			84					40		Sold		204 415	11/9/00	98	: :	2 7	- ‹	233,440	10/61/0
-	Minimum Sale Price	n Sale P	rice	191,288	191,288	221,000	242,075	5									250,156	11,000	3 5	7 .	Dio 6	7	267,390	6/13/01
	Maximum Safe Price	n Sale F	rice	304,000	274,475	282,195		0.						222				11/3/00	۵ (Sold	က	290,285	6/20/01
•	Average Sale Price	Sale Pr	ice	245,686	222,624	247,219	268,803	33										17/13/00	£ 6	35	Sold	_	274,475	6/21/01
-	Median Sale Price	Sale Pric	8	245,500	223,219		269,593	93								, ~		11/16/00	90	. SS	Sold	⊷ ო	255,965 271.975	6/26/01
4	Lot No.	Status	s Plan	Sale Price	Date	#	# Lot No.	Statue	D an	Salo Drice		5	5 4	183	Sold			11/16/00	91	91	Sold	-	240,245	6/28/01
-	341	Sold	-	198,868	9/21/00	47	233			1	1	11/21/00					7/2,550	11/17/00				6	22,357,392	
7	351	Sold	-	206,412	9/21/00	48	31	Sold	-	223,288		11/22/00												
n	342	Sold	2	230,745	9/22/00	49	231	Sold	-	223,		11/22/00												
4	343	Sold	က	242,075	9/22/00	20	241	Sold	-	225,480		11/22/00												
2	352	Sold	2	228,996	9/22/00	51	243	Sold	က	265,		11/22/00												
9	353	Sold	Э	249,600	9/22/00	52	32	Sold	2	255,595		11/28/00												
-	261	Sold	-	199,882	9/26/00	53	43	Sold	က	275,		11/28/00												
c o	762	Sold	7	226,143	9/26/00	20	171	Sold	-	227,175		1/28/00												
თ	263	Sold	က	262,973	9/26/00	55	181	Sold	-	222,		11/28/00												
5	271	Sold	-	191,288	9/26/00	99		Sold	3	273,.		11/29/00												
Ξ	273	Sold	က	244,760	9/28/00	25	41	Sold	-	215		11/29/00												
15	311	Sold	-	198,530	9/28/00	58	242	Sold	2	255,0	•	1/29/00												
13	312	Sold	2	222,940	9/28/00	29	42	Sold	2	265	•	11/30/00												
4	272	Sold	2	225,435	9/29/00	9	232	Sold	2	264,0		11/30/00												
1 5	313	Sold	3	253,955	9/29/00	61	51	Sold	1	230,645		10												
16	321	Sold	-	193,825	10/6/00	62	25	Sold	2	262,(•	01												
17	322	Sold	2	222,455	10/6/00	63	53	Sold	8	282,220		101												
18	331	Sold	-		10/6/00	64	62	Sold	2	261,4		101												
£	323	Sold	ო		10/10/00	65	122	Sold	2	282,195		101												
20	332	Sold	2		10/11/00	99	162	Sold	2	255,000		(0.1												
21	333	Sold	9		10/12/00	29	121	Sold	-	234,478		01												
55	281	Sold	-	•	10/16/00	99	123	Sold	က	296,215		01												
53	282	Sold	2		10/15/00	69	161	Sold	-	235,807		01												
24	301	Sold	- 1	_	10/17/00	20	163	Sold	က	272,790	90 2/21/01	.01												
Ç %	302	Dion	. 7	•	10/19/00	71	153	Sold	က	269,335		01												
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28	263	Dio.	٦ ٢		10/24/00	2 2		Sold	- (230,700		01												
29	212	Sold	۰ ۸		10/25/00	7 7	7 1	Ding View	7 -	251,948		5												
30	291	Sold	. ~		10/26/00	76	55	000	- r	237,390	10/87/7 06	5 7												
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9	12/29/00	1/18/00	2/20/01	3/7/01	3/8/01	3/13/01	3/15/01	3/15/01	3/16/01	3/16/01	3/16/01	3/21/01	3/23/01	3/26/01	3/28/01	3/30/01	4/18/01																												
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ć	345,355	346 990	306,780	341,990	339,990	339,990	354,485	350,290	353,508	290,930	339,990	324,990	344,990	358,714	306,730	360,182	309,925																												
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	200	Totale	108						Status	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sod	Sold	Sold	Sold	Sold	D 70		Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	
		F neld	41	247,799	404,990	353,213	354,558		# Lot No.	36	48	91	47	49	72	23	20	5	87	46	25	82	88	22	68	98	19	18	8	15	16	* •	æ Ç	<u> </u>	=	7	o	17	9	ß	4	13	9	7	
		C neld	37	301,990	443,490	336,984	336,224		**	22	20	22	28	29	90	61	62	63	64	65	99	29	88	69	2	71	72	52	74	75	92	72	æ ç	. 6	æ	82	83	8	82	98	87	88	88	8	155
		Dian 1	30	284,990		307,536	307,097		Date	4/18/00	4/20/00	4/20/00	4/20/00	4/21/00	4/25/00	4/26/00	4/26/00	4/27/00	4/28/00	2/1/00	2/3/00	2/3/00	5/4/00	5/4/00	5/4/00	2/4/00	2/2/00	2/2/00	5/17/00	2/30/00	2/30/00	6/22/00	6/23/00	6/28/00	6/29/00	9/53/00	6/29/00	6/29/00	9/30/00	9/30/00	9/30/00	1/3/00	2/5/00	2/5/00	
		108	' !	247,799			334,978		Sale Price	247,799	366,898	316,392	288,201	314,185	284,990	304,990	357,656	328,243	301,990	314,763	355,625	315,210	337,231	336,357	309,713	388,732	337,067	318,091	325,940	287,500	307,204	331,648	299,990	316.234			326,330	298,320	358,996	307,640	339,990	291,990	340,940	332,490	
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	Minimum Sale Price	Sale Pri	ce	369,990	369,990	381,102	380,625	
	Maximum Safe Price	Sale Pri	ice	481,210	452,354	442,990	481,210	
	Average Sale Price	Sale Pric		414,200	413,719	404,452	424,428	
	Median Sale Price	ale Price	_	411,842	416,265	396,858	417,939	
#	Lot No.	Status	Plan	Sale Price	Date	Phase		
•	2	Sold	2	381,102	6/19/01	1 - 2M		
2	က	Sold	e	417,444	6/20/01	1 - 2M		
9	+	Sold	-	369,990	6/21/01	1 - 2M		
4	4	Sold	-	394,540	6/21/01	1 - 2M		
G	S	Sold	2	387,475	6/21/01	1 - 2M		
9	6 0	Sold	-	452,354	6/25/01	1 - 2M		
7	6	Sold	2	406,240	6/26/01	1 - 2M		
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APPRAISAL REPORT SUMMARY

SECTION I

I have estimated the values for the Merchant Builders utilizing the Sales Comparison Approach and have deducted the remaining costs to complete. The results of this analysis are as follows.

Property Value
Total Value
Ö
\$14,030,000
\$ 4,656,000
\$11,427,246
\$11,011,000
8 8,070,000
\$ 1,627,000
\$ 1,110,000
\$ 288,000
\$ 542,000

The total value for Section I including all Age Restricted lands is \$163,737,000.

The total value for Section I excluding all Age Restricted lands is \$115,962,000.

SECTION II

This section involved the Talega Associates, LLC ownership. The value was estimated via three premises.

\$89,536,000	\$84,105,000	\$24,525,000
		,
Premise A (Including all Age Restricted Lands)	Premise B (Excluding all Age Restricted Lands)	Premise C (Properties Not Impacted by 404 Permit)

SECTION III

This represents the individually owned properties occupied by homeowners. The total value indicated is as follows.

\$304,884,636

The preceding values are stated subject to the Assumptions and Limiting Conditions and Appraiser's Certification as of said date of value.

APPRAISER'S CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- 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.

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- I have no present or prospective interest in the property that is the subject of this report and I have not personal interest or bias with respect to the parties involved. m
- 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.

4

- This appraisal was not based on a requested minimum valuation, a specific valuation, or the approval of a loan. Ś
- My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

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- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant professional assistance to the person signing this report.

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- prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. The reported analysis, opinions, and conclusions were developed, and this report has been 6
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. 9
- As of the date of this report, Bruce W. Hull, has completed the requirements of the communing education program of the Appraisal Institute. Ξ

Bruce W.Hull, MAI State Certified General R.E. Appraiser (AG004964)

ADDENDA

DRAFT U.S. ARMY CORPS OF ENGINEERS 404 PERMIT



LOS ANGELES DISTRICT U.S. ARMY CORPS OF ENGINEERS

DEPARTMENT OF THE ARMY PERM Talega Associates, LLC 200001687-FT Los Angeles Permit Number: Note: The term Issuing Office: Permittee:

Struct the Taioga Master-Planned Community (Phase II) located in the Segunda Deshecha, will be accomplished using Heback anchorr, grade beans, or other methods minimizing remedial earthwork along the Segunda Deshecha. Placement of fill is unthorized only in locations listed below. Upper Segunda Deshecha up to and including Imbitary 1; Thibutary 2; Upper 14.3 of Thibutary 4; Upper 14.3 of Thibutary 4; Upper 14.3 of Thibutary 5; Upper 14.3 of Thibutary 5; Inthutary 5 above Site BC; Tributary 5 and 7 locations along the Segunda including 0.44 acre if alkali weilands, 0.04 acre of southern willow woodland, and 0.72 acre of Project Discontinuo Project Discontinuo de Talega Master-Planned Community (Phase II) located City of San Care and unincorporated County of Orange, California, as shown on the attached drivening. The authorized activity will impact 1.28 acres of waters of United States non-welland waters of the U.S. The authorized activity consists of construction of residential Impacts to the Segunds Deshechs. All geotechnical stabilizations, having potential to impact lermose in the project area. Road crossings for Avenida Vista Hermosa (Bridge #2), Calle (Crossing #1) from Avenida Vista Hermosa to the Village Center will be realigned to avoid commercial development, 7 invert control structures, and connection of Avenida Vista Saluda (at two locations)(Bridges #9 and #5), and Avenida Taloga (#4) shall occur by construction of bridges over the Segunda Deshecha Creek. The secondary access road

Project Location: In southern Ozange County within the City of San Clemente and Unincorporated County of Ozange, California

Deshecha for placement of invert control structures.

08.8.7

Permit Conditions

General Conditions:

- 1. The time limit for completing the authorized activity ends on May 31, 2006. If you find that you need more time to complete the authorized activity, submit your request for a time extension to this office for consideration at least one month before the above date is reached.
- ould year wish to conformance with the terms and conditions of this permit. You are not relieved of this requirement if you abandon the permitted activity, although you may make a good faith transfer to a third party in compliance with General Condition 4 below. Stould you wish cease to maintain the authorized activity or should you desire to abandon with the activity or should you desire to abandon with the activity or should you desire to abandon. 2. You must maintain the activity authorized by this permit in good condition and in faith transfer, you must obtain a modification from this permit from require restoration of the area.
- If you discover any previously unknown historic or archeologic accomplishing the activity authorized by this permit, you must in what you have found. We will initiate the Federal and sige coeff if the remains warrant a recovery effort or if the sig Register of Historic Plages
- toffile office to validate the owner in the space putransfer of this author 4. If you sell the part

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Corps of Engineers

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low representations from this office to inspect the authorized activity at any time the same and the series and the series. The life certification as special conditions to this permit. permit. deemed ne conditions 6. You me

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Special Conditions:

- 1. Prior to initiation of any work authorized by this permit, the permittee shall obtain a Water Quality Certification or Waiver pursuant to Section 401 of the Clean Waier Act. A copy of the certification or waiver shall be submitted to the Corps upon its receipt.
- The permittee shall implement all mutigation measures regarding California gnateatcher Critical Habitat. This permit is valid upon issuance of finalized informal consultation for California gnatcatcher Critical Habitat.
- 3. The permittee shall abide by all stipulations in the Memorandum of Agreement (MOA) submitted to the Advisory Council on Historic Preservation Pursuant to 36 CFR 800.6(a) (see
- 5. The permittee shall receive a Notice to Proceed prior to start of construction authorized by this permit. The permit does not constitute a Notice to Proceed to ensure compliance with the

permit Special Conditions

- archwological research design report entitled "An Archeological Research Design for the Evaluation of Cultural Resources in Talega Valley, Orange County, California". The Corps will determine the applicability of the use of design report for complying with ethpulation 1 of the Prior to initiation of any work authorized by this permit, the pennittee shall subnut a copy of MOA. Review of the above report and determination of its applicability shall occur prior to start of any work authorized by this permit and any test excavations to be conducted pursuant to the
- providing in kind replacement at 3.1 ratio (accepted in median to the providing in kind replacement at 3.1 ratio (accepted in median to the provider of southern the woodland to the mitigated in the data. The provider of the mitigated of kinds of the commendation plans that follow the recommendations are interested in the event of the parameters of the mitigated of the provider of the provider of the provider of the provider of the provider of the monitor constructions of the provider of th ection to reximately precise width measurements of buffer corridors conducting using precess around the preserved areas. The buffer areas shall general consists of freet on each side from the centerline of the creek, unless other thopographic feet, a threatting all a width. The permittee shall not initiate any work in waters of the U.S. and the signators are remittee prior to receipt of written approval of the mitigation plan. The inities shall impresse for unavoidable impacts a follows. Impacts to Official shall influent to the first of providing in-kind replacement at 3:1 ratio (ext. of initial shall influent to of impacts to Other are of southern who woodland to the mitigated by the distribution plans to 0.72 are of ephemeral drainagement in mitigate the of kind. The prediction plans shall follow the tecton mendalitorate invides the first of 1000 was incorrectly on the telest. 7. Prior to initiation of construction in waters of the U.S. and the designated buffer confidors, the permittee shall submit radigation and monitoring Plan "Plan" to the U.S. Agry Corps of and precise 2. Prior to initiation of construction in waters of the permittee shall submit miligation and monitoring Plan "Plan" to the Engineers, Tos Angels District for review and approval. The Plan shall find the Use constitute along all of the preserved water for the Use. maps showing the buffer corridors along all of the preserved wateg
- The permittee shall divert all non-storm water, or urban nunoff to downstream areas of the preserved alkali wetlands in Segunda Deshecha and discharge these flows into the urbanized segments of Segunda Deshecha
- including wellands and all associated buffer corridors, which are to be preserved in order to appropriately slagged prior to construction. The permittee shall restore all temporary impact additional acreage impacted outside of the approved construction footprint shall be mitigated at a minimum 10:1 ratio. In the event that additional impacts to waters of the U.S. occur, this 10. The permittee shall ensure that there are no direct to any of the preserved waters of the U.S. and the associated buffer corridors on-site. The permittee shall flag all waters of the U.S., identify these areas. The permittee shall submit a photo documentation log showing project areas associated with construction of the road crossings to pre-construction conditions. Any suthorization may be suspended or revoked.
- Prior to initiation of work in waters of the U.S. and the associated buffer corridors, the permittee shall acquire and record a conservation easement for the preserved waters of the U.S.

5 12690

and the associated buffer conidors. The conservation easement shall be deeded to a public agency to be approved by the Corps and shall be recorded in perpetutly for the preservation of stream and wildtile preservation values. The language of the conservation easement shall adhere to the Corps format and be approved by the Corps and the California Department of Pish and Game prior to recordation. A draft of the resement shall be submitted to the Corpa concurrently, with the grading plan to allow for simultaneous review (and revision, if necessary) of both documents

- The permittee shall submit final detail grading plans and bridge designs for Corps approval or disapproval at least 30 days prior to the indiation of grading. The plans shall be aubinitted on paper that is no larger than 11"X17". The Corps shall review and approve or disapprove the plans within 30 days from receipt of the final grading plans. The permitter shall ensure that the project is built in accordance with the final Corps approved plans. 2
- artiction to eam of the T excessive 13. The permutee shall utilize Best Management Practices defined minimize the dispersion of silt and debris to Segunda Deshering proposed project area. The permuttee shall ensure that toxic magnetication do not enter watercourses during project construction. erosion do not enter watercourses during project construction.
- staging horage, and the fairing of the court Posting of 14. The permittee shall ensure that all vehicle maigh fuel occur in designated appland areas. The peruptive upland areas are located in such a manuages tripreve U.S.
- 15. The permittee starting length contract that the permittee starting length is informed to the length of the length of the length and conditions were sensitive resources as field withing project bloom with Special Conditions, shall be readily available at the work that all parts during periods of work and must be presented upon a vailable at the work that all parts during periods of work and must be presented upon the with a reasonable reason for making such a transfer of the U.S. If applicable, mats

Further Information:

- Congressional Authorities. You have been authorized to undertake the activity described above pursuant to:
- Section 10 of the Rivers and Harbors Act of 1899 (33 U.S.C. 403)
- Section 404 of the Clean Water Act (33 U.S.C. 1344). 8
- Section 103 of the Marine Protection, Research and Sanctuaries Act of 1972 (33 U.S.C.
- Limits of this authorization.

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- a. This permit does not obviate the need to obtain other Federal, state, or local authorizations required by law.
- b. This permit does not grant any property rights or exclusive privileges.
- c. This permit does not authorize any injury to the property or rights of others.
- d. This permit does not authorize interference with any existing or proposed Federal project.
- 3. Limits of Federal Liability. In issuing this permit, the Federal Governary of any liability for the following:
- a. Damages to the permitted project or uses thereof as a reunpermitted activities or from natural causes.
- b. Damages to the permitted project or uses thereof
- activities undertaken by or on behalf of the I
- c. Damages to perfore, property, of Jo structures can
- ication, suspension, or revucation of d. Design or e. Dampge this per
- fermination of this office that Issuance of this permit is in the information of the information you provided. not contra
 - instances warrant. Circumstances that could require a reevaluation Include, This office may reevaluate its decision on this permit at but are not limited to, the following: any time th 5. Reeval
- You fail to comply with the terms and conditions of this permit.
- b. The information provided by you in support of your permit application proves to have been false, incomplete, or inaccurate (See 4 above).
- c. Significant new information surfaces which this office did not consider in reaching the original public interest decision.

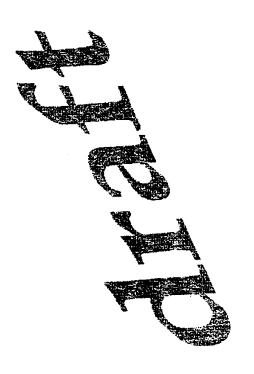
Such a reevaluation may result in a determination that it is appropriate to use the suspension, modification, and revocation procedures contained in 33 CFR 325.7 or enforcement procedures such as those rontained in 33 CFR 326.4 and 326.5. The referenced enforcement procedures provide for the issuance of an administrative order requiring you to comply with the terms and conditions of your permit and for the initiation of legal action where appropriate. You will be required to pay for any corrective measure ordered by this office, and if you fail to comply with

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such directive, this office may in certain situations (such as those specified in 33 CFR 209.170) accomplish the corrective measures by contract or otherwise and bill you for the cost

authorized by this permit. Unless there are circumstances requiring either a prompt completion of the authorized activity or a reevaluation of the public interest decision, the Corps will normally give you favorable consideration to a request for an extension of this time limit. 6. Extensions. General condition I establishes a time limit for the completion of the activity



RBF CONSULTING CORRESPONDENCE DATED AUGUST 13, 2001



August 13, 2001

JN 10-101187

Mr. Bruce Hull **BRUCE HULL & ASSOCIATES** 1056 East Meta, Suite 202 Ventura, California 93001

Subject:

Talega Master Development Cost Budget Summary

Dear Mr. Hull:

RBF Consulting has been retained by Talega Associates, LLC to assist in the preparation of the Budget Summary for the Talega Development. Our involvement has been in preparing quantities summary, which includes linear footage takeoffs of Talega's infrastructure improvements and grading estimates. We believe that the Budget Summary, which was compiled with assistance of other consultants on the Talega Development team, is generally consistent and comparable to actual construction costs. This estimate, also includes the three proposed bridges across the Segunda Deshecha, the offsite extension of Calle Saluda (west of the Talega boundary to Avenida La Pata) and Avenida La Pata (north of Avenida Vista Hermosa to Calle Saluda).

If you have any questions or comments, please feel free to call me at (949) 855-5798.

Sincerely,

Jeffrev Okamoto, P.E.

Senior Associate

Land Development

pc:

Jerry Miyahara, Talega

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AVERAGE SALES PRICE OF ACTIVE DEVELOPMENTS AND CALCULATIONS OF 1% MARKETING FEE TO MASTER DEVELOPER

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Premise A
Talega Associates LLC Ownership
Including Age Restricted Lands

Revenue for Unclosed Units \$1,085,000 33,635,000 29,295,000 17,360,000 45,750,000 51,750,000 57,750,000 33,750,000 12,750,000 4,760,000 36,295,000 39,865,000 54,740,000 34,510,000 52,360,000 77,350,000 51,765,000 18,000,000 48,150,000 35,550,000 32,850,000 16,200,000 42,750,000 60,750,000 3,960,000 24,090,000 15,510,000 32,340,000 23,430,000 450,000 6,750,000 3,640,000 25,480,000 48,960,000 \$1,116,135,000 \$11,161,350 \$1,085,000 1,085,000 1,085,000 1,085,000 759,000 759,000 759,000 759,000 750,000 595,000 595,000 595,000 595,000 595,000 595,000 595,000 450,000 450,000 450,000 450,000 450,000 450,000 450,000 450,000 450,000 330,000 330,000 330,000 330,000 260,000 336,000 Price Per Unit ¥ ₹ Ž Ž Remaining Units 61 67 92 92 98 88 88 87 87 2730 204 125 329 186 252 438 80<u>1</u> Closed 68 140 107 73 73 36 95 135 69 72 75 75 75 75 75 75 42 22 22 25 E 120 28 42 82 83 3412 86 50 325 323 323 323 28 438 421 Total Units TOTAL AD UMBRELLA REVENUE Planning Area Reference 1-1 2-7 4-8 5-8 1-7/1-G 2-8 3-7 5-E 1.H / 1.H 2.6 2.0 3.C 3.C 3.E 3.E 5.A 5.D 2-8 4-4 6-8 6-8 7C-A 22-H 32-P M H 3-D A A B 2-F 2-W 2-C 2- Semi-Cust. 8 - Bungalow 6 - Smalf Lot Product Type 5 - Move up 1- Custom 7 - Cottage 3 - Luxuny 4 - Quality Apl./TH Seniors TOTAL

Premise B Talega Associates LLC Ownership Excluding Age Restricted Lands

Revenue for Unclosed Units	\$1,085,000	45,750,000	4,760,000 36,295,000 2,380,000 34,510,000	450,000 18,000,000 46,150,000 16,200,000	3,960,000 24,090,000 15,510,000	6,750,000 10,125,000 3,640,000	27,360,000 27,360,000	\$326,375,000	\$3,263,750
Price Per Unit	\$1,085,000 1,085,000 1,085,000 1,085,000	750,000 750,000 750,000 750,000 750,000 750,000	595,000 595,000 595,000 595,000 595,000 595,000 595,000 595,000	450,000 450,000 450,000 450,000 450,000 450,000 450,000 450,000	330,000 330,000 330,000 330,000	375,000 375,000 260,000 260,000	240,000 240,000 N/A N/A	336,000	
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Planning Area Reference	2-8 4-4-6 6-8	24.4.4.4.4.4.0.0.0.0.0.0.0.0.0.0.0.0.0.0	7-7-4-8-8-4-6-4-6-4-6-4-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6-6-4-6	1-D / 1-E 1-H / 1-I 2-G 3-C 3-G 3-G 5-A 5-D	2-H 2-P 3-P 3-D	2-F 2-W 2-I 3-B	1C.A 1C.B 2-N 2-O	Seniors 2-C TOTAL	KELLA KEVENU
Product Type	1- Custom	2- Semi-Cust.	3 - Luxury	4 - Quality	5 - Моче-ир	6 - Small Lot 7 - Cottage	6 - Bungalow Apt./TH	Seniors TOTAL TOTAL AD IMP	101AL AD UME

Properties Not Impacted by Additional U.S. Army Corps of Engineers 404 Permit

BUILDER STATUS OF PLANNING AREAS

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¹Finished Homes include unsold Models. ²Unfinished homes are treated as a finished lot. ³includes 3 Pkg Lots

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		0	odels.	finished		Lot No.	S 3	<u>.</u> 6	83	84	82	98	87	80 8	8 8	9	95	60 0	4 C	98	97	86	66	3 5	102	103							_		112	113	114
Plan 4	н	000	s unsoid Models.	eated as a finished		Lot No.		77							66 70 83			98					92 99			96 103	104		92 !	107	108	109	_	111			10/ 114
Aneld Fueld	00	1	nes include unsold Models.	omes are treated as a finished		1	2 7		76	11	78	62	8			84	82	88 78	ò 8	68	06	91	92	97	98	96	97 104	98 105	901 66	100 107	101 108	102 109	103 110	104 111	105	106	
nelQ ? nelQ	0 0	0	hed Homes include unsold Models.	ished homes are treated as a finished		Plan	N/A /3	N/A /4	92 4/N	N/A	N/A 78	N/A 79	M N/A	¥/Z ¥	M N/A 83	N/A 84	N/A 85	N/A 88	/8 V/N	N/A 89	06 V/N	N/A 91	N/A 92	4/N 4/N	N/A 95	N/A 96	N/A 97 104	N/A 98 105	90 106 A/N	N/A 100 107	N/A 101 108	N/A 102 109	N/A 103 110	N/A 104 111	N/A 105	N/A 106	N/A 107
Q red red	0 0	0	¹ Finished Homes Include unsold Models.	Unfinished homes are treated as a finished lot.		s Plan	N/A /3	4 K	92 4/N	N/A	N/A 78	N/A 79	M N/A	N/A	M N/A 83	N/A 84	N/A 85	N/A 88	ò 8	N/A 89	06 V/N	N/A 91	92	4/N 4/N	N/A 95	N/A 96	N/A 97 104	N/A 98 105	90 106 A/N	N/A 100 107	N/A 101 108	N/A 102 109	103 110	104 111	N/A 105	N/A 106	10/
nelQ ? nelQ	0 0 0	0 0	1 Finished Homes Include unsold Models.	Unfinished homes are treated as a finished		vo. Status Plan	Pad N/A /3	N/A /4	S VN pad	N/A	Pad N/A 78	Pad N/A 79	Unf M N/A 80	¥/Z ¥	Uni M N/A 83	Pad N/A 84	Pad N/A 85	N/A 88	/S Y/N DEA	Pad N/A 89	Pad N/A 90	Pad N/A 91	N/A 92	Pad N/N 93	Pad N/A 95	N/A 96	Pad N/A 97 104	Pad N/A 98 105	Pad N/A 999 106	Pad N/A 100 107	Pad N/A 101 108	Pad N/A 102 109	Pad N/A 103 110	Pad N/A 104 111	N/A 105	Pad N/A 106	N/A 107
neld Pueld Dian					107	Lot No. Status Plan	3/ Pad N/A /3	74 A/N Ped	40 Pad N/A 76	48 Pad N/A 77	49 Pad N/A 78	50 Pad N/A 79	51 Unf M N/A 80	Unit M N/A 81	55 Uni M N/A 83	55 Pad N/A 84	56 Pad N/A 85	57 Pad N/A 88	/S Y/N DEA	60 Pad N/A 89	61 Pad N/A 90	62 Pad N/A 91	63 Pad N/A 92	65 Pad N/A 93	66 Pad N/A 95	67 Pad N/A 96	68 Pad N/A 97 104	69 Pad N/A 98 105	70 Pad N/A 99 106	71 Pad N/A 100 107	72 Pad N/A 101 108	73 Pad N/A 102 109	74 Pad N/A 103 110	75 Pad N/A 104 111	Pad N/A 105	77 Pad N/A 106	Pad N/A 107 Pad N/A
neld Pueld Dian	0 0 0 0 0 0		0	107	Totals 107	Lot No. Status Plan	3/ Pad N/A /3	30 30 PBU N/A 75	55 59 Pad N/A 76	41 48 Pad N/A 77	42 49 Pad N/A 78	43 50 Pad N/A 79	51 Unf M N/A 80	45 52 Uni M N/A 81	47 54 Unf M N/A 83	48 55 Pad N/A 84	49 56 Pad N/A 85	57 Pad N/A 88	52 59 Pad N/A 88	53 60 Pad N/A 89	61 Pad N/A 90	55 62 Pad N/A 91	56 63 Pad N/A 92	58 65 Pad N/A 94	59 66 Pad N/A 95	67 Pad N/A 96	61 68 Pad N/A 97 104	69 Pad N/A 98 105	63 /0 Pad N/A 99 106	64 71 Pad N/A 100 107	65 72 Pad N/A 101 108	66 73 Pad N/A 102 109	67 74 Pad N/A 103 110	68 75 Pad N/A 104 111	76 Pad N/A 105	70 77 Pad N/A 106	78 Pad N/A 107 79 Pad N/A
Plan 9 Plan Plan Plan	mes ² 4 0 0 0 0 0 0	ts Totals $103 $	actions 0	107	Totals	Plan Lot No. Status Plan	3/ 3/ Pad N/A /3	N/A 30 30 Pad N/A 75	NA 40 40 Pad N/A 76	41 48 Pad N/A 77	N/A 42 49 Pad N/A 78	N/A 43 50 Pad N/A 79	N/A 44 51 Uni M N/A 80	45 52 Uni M N/A 81	N/A 47 54 · Unf M N/A 83	N/A 48 55 Pad N/A 84	N/A 49 56 Pad N/A 85	50 57 Pad N/A 88	0/4 Ped 05 25 W/N	N/A 53 60 Pad N/A 89	N/A 54 61 Pad N/A 90	N/A 55 62 Pad N/A 91	56 63 Pad N/A 92	N/A 58 65 Pad N/A 94	N/A 59 66 Pad N/A 95	N/A 60 67 Pad N/A 96	N/A 61 68 Pad N/A 97 104	N/A 62 69 Pad N/A 98 105	N/A 63 /0 Pad N/A 99 106	N/A 64 71 Pad N/A 100 107	N/A 65 72 Pad N/A 101 108	N/A 66 73 Pad N/A 102 109	N/A 67 74 Pad N/A 103 110	N/A 68 75 Pad N/A 104 111	N/A 69 76 Pad N/A 105	N/A 70 77 Pad N/A 106	71 78 Pad N/A 107 72 79 Pad N/A
neld fueld plans	mes ² 4 0 0 0 0 0 0	103 0 0 0 0	actions 0	1 Lots 107		s Plan Lot No. Status Plan	N/A 3/ 3/ Pad N/A /3	N/A 30 30 Pad N/A 75	NA 40 40 Pad N/A 76	N/A 41 48 Pad N/A 77	N/A 42 49 Pad N/A 78	Pad N/A 43 50 Pad N/A 79	Pad N/A 44 51 Uni M N/A 80	N/A 45 52 Unit M N/A 81	Pad N/A 47 54 Unf M N/A 83	Pad N/A 48 55 Pad N/A 84	Pad N/A 49 56 Pad N/A 85	N/A 50 57 Pad N/A 88	Pad N/A 52 59 Pad N/A 88	Pad N/A 53 60 Pad N/A 89	Pad N/A 54 61 Pad N/A 90	Pad N/A 55 62 Pad N/A 91	N/A 56 63 Pad N/A 92	Pad N/A 58 65 Pad N/A 94	Pad N/A 59 66 Pad N/A 95	Pad N/A 60 67 Pad N/A 96	Pad N/A 61 68 Pad N/A 97 104	Pad N/A 62 69 Pad N/A 98 105	Pad N/A 63 /0 Pad N/A 99 106	Pad N/A 64 71 Pad N/A 100 107	Pad N/A 65 72 Pad N/A 101 108	Pad N/A 66 73 Pad N/A 102 109	Pad N/A 67 74 Pad N/A 103 110	Pad N/A 68 75 Pad N/A 104 111	Pad N/A 69 76 Pad N/A 105	Pad N/A 70 77 Pad N/A 106	N/A 71 78 Pad N/A 107 N/A N/A 72 79 Pad N/A

AD VALOREM AND SPECIAL TAX SCHEDULE

TALEGA ASSOCIATES, LLC BOND TIMING AND UNDEVELOPED PROPERTY TAX ANALYSIS (000'S) AUGUST 10, 2001

						7000	TUGOS 10, 2001									
Fiscal Year Ending 6/30/xx == >>>		2000/01		2001/02	2002/03	2003/04	2004/05	2005/06	2008/07	2007/08	2008/08	2009/10	2008/09	2009/10	ç	Total
Summary of Total Tax Levy: SMWD CFD 99-1 Datk Service	ξ		3.080.5	3,300	ag :	•										3
South County Pipeline Reduced Debt Service	:	•				, ,) A) .		A A	4,022	^	4,108 ×	4,180 \$	45,151
C.U.S.D. CFD Debt Service Additional SMWD CFD Bond Debt Service	<u>©</u>			386	244	1,544	1,576	909	.	1,673	1,707	1,741		1,775	1.811	17,005
		3	3,380 \$	3,776 \$	\$ 050,5	5,118 \$	5,224 \$	5,325	\$ 5,437	\$ 5,544	\$ 5,855	\$ 5,783		5,883 \$	6,002 \$	62,157
Summary of Special Tax Collections SMMD CFD 99-1:	<u></u>															
Developed Property Tax (i.e., Building Permit)	ପ	•	448 \$	1,535 \$	2,310 \$	3,178	3,648 \$	3,717 \$	3,787	\$ 3,871	3.949.5	4.022	v	4.108 .5	4.180 \$	38 771
Undev. Property Tax (I.e., Non-Bullding Permit) (1)-(3)	ē)	\$ 2.6	2,832 \$	1,855 \$	1,186	398 \$	*			-		,	•			6.380
Merchant Builder Portion of Undev. Prop. Tax Master Developer Portion of Undev. Prop. Tax	€	*	788 \$	535 \$	345	133 24				•			•	-		1,789
Total Unday, Prop. Tax	•	\$ 2.8	2,832 \$	1,855 \$	1,198 \$			3					•	•		6,380
Total Tax Collections SMWD CFD 99-1		33	3,380 \$	3,390 \$	3,506 \$	3,574 \$	3,648 \$	3,717 \$	3,797	\$ 3,871	\$ 3,949	\$ 4,022	-	4,108 \$	4,190 \$	45,151
Summary of Special Tax Collections CUSD CFD 90-2:																
Developed Property Tax (i.e., Building Permit)	છ	\$	230 \$	780 \$	1,007	1,382 \$	1,576	1,608 \$	1,640	\$ 1,673	\$ 1,707	\$ 1,741	•	1,775 \$	1,811 \$	16.970
Undev. Property Tax (i.e., Non-Bullding Permit) (2)-(5)	()		1	4	\$08	152 \$	1			3			"	-		28,161
Merchant Builder Portion of Undev. Prop. Tax Master Developer Portion of Undev. Prop. Tax	9	. ·	•	• · ·	34. 8	•	•			•	•		•		•	50
Total Undev. Prop. Fax			-	~ ·	\$ 905	152 \$	•			8			\$	*		8
Total Tax Collections SMWD CFD 99-1		7	230 \$	760 \$	1,544 \$	1,544 \$	1,578 \$	1,606 \$	1,640	\$ 1,673	\$ 1,707	\$ 1,741	•	1,775 \$ 1,	1,811 \$	17,630
Summary of Ad Valorem Tax Collections:																
Assessed Value		-	37.413 \$	37,752 \$	38,507 \$	39,277 \$	40,083 \$	40,864 \$	41,681 \$	\$ 42,515 \$	\$ 43,385 \$	44,233	\$ 45,117	•	46.020 \$	496 406
Ad Valorem Rate		•	1.03%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%		1.02%			1	
Total Ad Vatorem Tax			378 \$	385	383 \$	401 \$	\$ 408	417 \$	425	\$	\$ 442	\$ 451	*	460 \$	69	
Existing ID 7 AMP Debt Service			=	\$ 57	16.5	165 \$	165 \$	165 \$	165	\$ 165	\$ 165	\$ 165	8	165 \$	165	
Total Ad Valorem and ID 7 AMP Debt Service	ε	*	\$25	\$ 055	558	\$65 \$	573 \$	582 \$	590	665 \$	\$ 607	\$ 616	•	625 \$	\$	
% of Remaining to be Sold	<u>@</u>	2	70 75.		Q. 13	34.36	: 4	12 848	ž	0 004	140 4	400 0		50	:	
Total Ad Valorem Tax Applicable to Unsold Property (7) * (8)	•	5	384 \$	333 \$	264 \$	198 \$	136 \$	\$ 52			•		•	•	•	1.407
Summary of Total Undeveloped Property																
Tax Collections (4) + (6) + (9):			2	\$1,320	\$1,478	755	\$136	\$75	\$17	2	8	2		0\$	æ	\$3,581

Conversion to Calendar Year: Calendar Year Ending Calendar Year Amount

\$600 \$1,389

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DEVELOPMENT COST SUMMARY WITH FOOTNOTES

TALEGA VALLEY	OPMENT COST SUMMARY
~	9
	EVEL
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,			_	DEVELOPMENT COST SUMMARY	T SUMMARY			
20	Development Dhass		Total General		- Children	General	General	
Λ	Master Developer Cost	lotal Backhone Cast	Development		Costs	Development	Development	Adjusted
		Budget (a)	Cost	Development	Completed	Completed	Costs Deleted from	Development
	Phase 1 - Catellus - Planning		nander (c) (d)	Budget	as of 7/01/01	as of 7/01/01 (f)	Radaet	Budget
	Phase 1 Ctandard Park	11,027,075 (b)	0	11 027 075			200	da UI //U I/UI
	Planning Areas 1-H// 8-1-1				(e) (c/n'/zn'+1)	0	0	0
	Total Phase 1	72 922 950 22 922 950		11,895,875		c	ć	
	Phase 2A - Lennar	000111	>	22,922,950	(22,922,950)			00
	Planning Areas 2-F & 2-1							
	Phase 2A - Shea	(a) cs6'c/o'/	0	7,675,935	(7,508,414) (e)	0	C	101
	Pianning Area 2-G Phase 2A - Lyon	9,157,923 (b)	0	9,157,923	(8,958,058)	c	, c	126,101
	Planning Area 2-H	6,117,948 (b)	•				Ð	199,865
	Phase 2A - Woodbridge Planning Area 2.B			0,117,948	(5,984,429) (e)	0	0	133.519
	Phase 2A - Standard Pac/CRG	1,975,983 (b)	0	1,975,983	(1,932,859) (e)	0	o	43 434
	Total Phase 2A	18,923,840 (b) 43,851,629	2,432,575	21,356,415	(18,510,842) (e)	(1,020,677)	0	1.824.896
	Phase 2B - BHC				(700'460'74)	(1,020,677)	0	2,368,925
	Planning Area 2-M Phase 2B - Standard Pacific	4,763,225 (b)	0	4,763,225	(4,154,022) (6)	c	Ć	
	Planning Area 2-V		0	5.127.082		•	Þ	609,203
	Phase 28 - BRE-Planning Arrea 2-0	2,646,236 (b) 3,307,795 (b)	1,084,209	3,730,445		0 (454,920)	o c	655,739
	Phase 2B - Standard Pacific		•	/cn'con'+	(2,884,738) (e)	(268,650)	0	1,209,669
	Phase 2B - Lyon-Planning Area 2-R	8,037,941 (b) 7 144 837 (h)	3,170,172	11,208,113	(7,009,912) (6)	(1 330 163)		00000
	Phase 2B - BHC-Planning Area 2-S		2,120,517	10,072,202 7 578 378	_	(1,228,284)	> 0	2,868,038 2,612,885
	Total Phase 2B	4,432,445 (b)		6,248,495	(4,739,617) (e) (3,865,548) (e)	(889,741) (761 991)		1,928,820
		774 11010	12,473,575	53,390,997		(5,233,749)	(B)	1,620,956
	Phase 3A/3B - Talega Total Phase 3	44,685,102 (b)	13,457,747	58,142,849	(B 244 265) (e)		,	12,473,043
		44,685,102	13,457,747	58,142,849	(8,244,265)	(5,646,695)		44,251,889
	Phase 4 - Talega	33,517,045	13,661,036	47,178,081	O	(5 734 000))	689,102,44
	Phase 5 - Talega	21,279,664	17,604,847	38,884,511		(768'16'16)	0	41,446,089
	Phase 6 - Talega Phase 6 - Talega	6,639,557 (b)	3,916,706	10,556,263		(7,386,764)	(B) (000'066)	30,507,747
	(16.1 Acres of Age Res.)	3.698.854 (h)	2 181 071		(a) o	(1,643,399)	0	8,912,864
	Phase 6 - Talega	1	6,098,677	5,880,825 16,437,088	(a) 0	(915,527)	0	4,965,298
	Town Center - Talega	18,569,792	4,911,468	23,481,260	(3 983 101)	(26,000,020)	ɔ	13,878,162
	Business Park - Others	5,235,497	1 431 156		(101,000,0)	(2,060,788)	0	17,437,371
	business Park - Talega Total Business Park —	9,901,919 15,137,416	6,720,742 8,151,898	0,000,653 16,622,661 23,289,314	(2,608,909) (4,934,240) (7,543,149)	(600,494)	00	3,457,250 8,868,486
	GRAND TOTAL	251,219,431	78,791,823	330,011,254	(121,272,270)	(33,060,020)	(000)	12,325,736
							(non'nee)	1/4,688,964

Talega Development Cost Summary 8-10-2001

TALEGA VALLEY DEVELOPMENT COST SUMMARY

FOOTNOTES

- (a) Includes cost of backbone facilities specific to each development phase which are necessary in order to produce a blue-top or superpad parcel.
- owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross (b) in development phases that contained more than one property owner, the Total Backbone Costs were allocated to each property acreage of all planning areas within the particular development phase.
- (c) Includes General Master Developer Costs and Development Agreement offsite such as, entitlement processing, park fees, fire station, environmental mitigation, Vista Hermosa Interchange, La Pata extension, project overhead costs and master marketing costs. These costs exclude costs related to land acquisition, property taxes and finance costs.
- development phase in relation to the total adjusted gross acreage of all development phases. Furthermore, in development phases (d) Total General Development Costs were allocated among development phases based on the relative adjusted gross acreage of the owner's planning area in relation to the total adjusted gross acreage of all planning areas with the particular development phase. preceding sentence was allocated to each property owner's planning area based on the relative adjusted gross acreage of such that contained more than one property owner, the General Development Costs of the development phase as determined in the
- (e) This column represents the Backbone Costs that have been expended or completed as of 7/1/01. Since certain development phases on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross acreage of all planning contain more than one property owner, the costs expended to date were allocated to each property owner's planning area based areas within the particular development phase.
- (f) This column represents the General Development Costs that have been expended or completed as of 7/1/01. These costs were allocated in the same manner described in Footnote (d).
- finished lot comparatives would not reflect this type of cost, therefore the cost of the recreation buildings have been deleted from (g) These costs are for the construction of recreation buildings. It is assumed this cost is unique to the Talega development and the the development budget to provide a better matching of costs to revenue.

TALEGA BRIDGE COSTS ANALYSIS

TALEGA BRIDGE COSTS ANALYSIS

July 16, 2001

THE FOLLOWING WORKSHEET PROVIDES THE DETAILED INFORMATION USED TO DETERMINE COSTS ASSOCIATED WITH THE CONSTRUCTION OF BRIDGES AT SEVERAL LOCATION S WITHIN THE TALEGA PHASE II AREA

BRIDGE COST ANALYSIS

	BRIDGE 2	BRIDGE 4 AVENIDA TALEGA	TALEGA		a ∂	BRIDGE 5	Į g			LAPATA CONNECTION TO SALUDA (GRADE 2 LANES/BUILD 2 LANES	ECTION TO	SALUDA LANES
ITEM	QTY. UNIT PRICE COST	o T	UNIT PRICE	E COST		QTY.	UNIT PRICE	SCE	COST	QTY. UNIT	UNIT PRICE	COST
COSTS RRIDGE CONSTRUCTION (S.F.)	60200 \$ 148.50 \$ 8.940.000	22140 \$	\$ 148 50	\$ 3,287,790	7.90	14490	\$ 148.38		2,150,000	\$ 2,150,000 PER RBF ESTIMATE	MATE \$	4,843,000
SPECIAL GEOTECHNICAL	•			•								
TIEBACKS (EA.)	710 \$ 5,640 \$ 4,004,400	001		s,				↔	•			
WICKING TO PREVENT LIQUIFACTION	•		ALLOW	\$ 200	200,000	-	ALLOW	∞	200,000			
EARTH EXPORT LONG HAUL TO VILLAGE 3	840000 \$ 0.50 \$ 420,000	000										
SUBTOTAL COSTS	\$ 13,364,400	001		\$ 3,48	3,487,790			•	\$ 2,350,000		υ?	4,843,000
CREDITS												
REDUCED STORM DRAIN (L.F.)	,		;								•	
12 X 14 CB CHANNEL	3300 \$ 900 \$ 2,970,000		820 \$ 700.00	•	644,000	006	125.00	?	006,28	CREDII FOR SALUDA \$	* ACODY	000'/99'L
IN ET STOLITORS	10000	30,000			-					_		
STORM DRAIN THRU GOLF	, <u>"</u>	000'09										
REMEDIAL GRADING		80000	1.00	•	80,000	20000	•	1.00 \$	20,000			
EROSION CONTROL	7 \$ 1,500 \$ 10,	10,500										
EXCAVATION FOR 140" RCP	\$ 9870 \$	25,000								PER RBF ESTIMATE	MATE	
WICK DRAINS	\$ 05.0	2 000	\$ 15,000	s	30,000	2	₹	15,000 \$	30,000			
PILES FOR RCB	\$ 15.00 \$		\$ 10,000		10,000	-	S	10,000	10,000			
AVH - REDUCED PAVING (S.F.)	∽	153,510 47000	~ >	• <u>•</u>	20,400	14480	•	2.55 \$	36,950			
AVH- REDUCED BAL. FOR SUBGRADE	\$ 1.00 \$											
AVH - REDUCED CURB & GUTTER (L.F.)	\$ 00.6 \$ 0		•	s,	000'6	630	\$	9.00.6	5,670			
AVH - REDUCED SIDEWALK (S.F.)	\$ 05.		\$ 2.50	s,	18,750	3150	~	2.50 \$	7,875			
REDUCED LANDSCAPE AREA	s	60,000 66667	\$ 1.50	· ••	000'001	40,000	·-	.50	000'09			
PORTION OF SALUDA IN VILLAGE CNTR	1 LS \$ 100	000'00			-							
SUBTOTAL CREDITS	\$ 4,944,260	260		\$ 1,042,150	2,150			•	232,995			
ENGINEERING & FEES	20% \$ 988,852	852	20%	•	208,430			20%	46,599			
CONTENGENCY	10% \$ 593,311	311	10%	s,	104,215			10%	23,299			,
SUBTOTAL CREDITS	\$ 6,526,423	423		\$ 1,35	1,354,795			••	302,893		∽	1,887,000
NET COSTS	\$ 6,837,977	977		\$ 2,13	2,132,995			**	\$ 2,047,107		\$	2,956,000

NET COST OF BRIDGES W/ LAPATA CONNECTION

\$ 13,974,079

Assumes Talega Bridge Is 54' wide and 410' long.

GROUND PHOTOS OF SUBJECT PROJECT AND ACTIVE RESIDENTIAL DEVELOPMENTS (NOT INCLUDED)

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX CFD 90-02 (Includes Legal Description and CFD Boundaries)

(See Appendix C to the Official Statement)

MARKET DATA SUMMARY CHARTS

RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	\$ PER LOT	\$ PER FINISHED LOT
-	NWC Avenida Pico	Dec-98	85	3,150	\$79,411	\$111,929
	and Calle Alicante					
	San Clemente					
7	N/S of Avenida Pico	Dec-98	121	2,700	\$67,769	\$103,063
	W/O Camino La Pedriza					
	San Clemente					
3	NWC of Avenida Pico	Dec-98	105	Att/ T.H.	\$43,810	\$79,261
	and Camino La Pedriza					
	San Clemente					
4	N/O Crown Valley Pky	Jan-99	118	2,000-2,500	\$57,712	000'62\$
	W/O San Antonio Pkwy					
	"The Trails", Ladera					
2	W/O Crown Valley Pkwy	Jan-99	55	2,500	\$67,636	000'06\$
	N/O Antonio Pkwy					
	"Shady Canyon", Ladera					
9	N/O Crown Valley Pkwy	Jan-99	94	3,150	\$82,138	\$101,000
	N /O Antonio Pkwy					
	"Sarasota", Ladera					
7	N/O Crown Valley Pkwy	Jan-99	103	3,150	\$82,136	\$101,000
	W/O Antonio Pkwy,					
	"Maplewood", Ladera				•	
8	N/O Crown Valley Pkwy	Jan-99	106	3,500	\$98,679	\$120,000
	W/O Antonio Pkwy	-				
	"Whispering Creek", Ladera					
6	N'ly of Meandering Trail	Jan-98	143	2,000-2,500	\$36,014	000'55\$
	S'ly of of Oso Pkwy					
	"Magnolia Lane", Los Flores					
10	SEC Oso Pkwy	Dec-97	72	3,000	\$54,167	\$78,000
	and Morning Trail					
	"Sundance", Los Flores					
7	SWC and SEC Oso Pkwy	Dec-97	120	3,500	\$67,500	000'28\$
	and Meandering Trail					
	"Wyngate, Las Flores					

RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	\$ PER LOT	S PER FINISHED LOT
12	South Side of Pursuit	Mar-98	7.1	3,300	\$76,901	\$98.300
	South of Liberty					
	"Cozumel", Aliso Viejo					
13	SWC Liberty	Mar-98	98	2,000-2,500	\$55,174	\$73,000
	and Pursuit					
	"Soled", Aliso Viejo					
4	NEC Wood Canyon Dr.	Aug-98	163	2,000-2,500	\$55,828	\$74,000
	and Pacific Park Drive					
	Aliso Viejo					
15	W/Corner of Camino de los Mares	Dec-97	64	3,150	\$46,875	\$86.875
	and Pacifico del Sur					
T	Foster Ranch, San Clemente					
16	NEC Paifico del Sur and	Feb-98	62	3,000	\$75,000	\$135,000
	Camino del los Mares					200
	San Clemente					
17	Planning Area 2-M	May-00	85	3,500	\$86,310	\$118.117
	Talega, San Clemente					
18	Planning Area 2-C	Feb-00	295	Varies	\$91,525	Varies - See Text
	Talega, San Clemente					
19	"Restone"	Feb-00	117	3,150	\$112.482	\$152 000
\neg	Village 2, Ladera Ranch				-	
20	"Chimney Corners"	Jan-00	92	3,750	120.439	\$156,000
	Village 2, Ladera Ranch					
21	E/S Oak View; S/O West Grand	Apr-99	74	2,660	\$101,014	\$130.926
ł	Aliso Viejo					
22	SWC Jamboree Road and	May-00	134	3,950	\$136,888	\$174,000
	Robinson Drive				•	
- 1	West Irvine					
23	"Westcott"	May-00	101	9.1 du/ac	\$83,193	\$112,000
	Village 2, Ladera Ranch				-	

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RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

	LOCATION	SALES DATE	SALES DATE NO. OF LOTS	LOT SIZE	\$ PER LOT	S PER LOT S PER FINISHED I OT
24	24 "The Gables"	Feb-00	120	9.2 du/ac	\$85.167	\$105,000
	Village 2, Ladera Ranch		-			•
25	E'ly Corner Robinson and Freeland	Apr-00	69	9.9 du/ac	\$105.212	\$133 350
	West Irvine			٠		
26	Planning Area 2-P	Jul-00	47	3.500	\$103,936	\$134 449
	Talega, San Clemente			•		
27	PA P9	1st quarter	83	2.500	\$76.325	\$111 451
	Phase III, Ladera	2001				•
28	PA, 12A & 12B	1st quarter	98	2.880	\$75,000	\$111 948
	Phase III, Ladera	2001)
29	PA P13A & 13B	1st quarter	69	3,250	\$103.050	\$140 952
	Phase III, Ladera	2001	•			1 00'01.4
30	30 PA 20A & 20B	1st quarter	111	3,500	\$139.523	\$166 651
	Phase III, Ladera	2001				, polion +
31	31 PA 21A, 21B, 21C	1st quarter	113	4,000	\$132.009	\$168 011
	Phase III, Ladera	2001				

RESIDENTIAL LOT SALES (4000 to 6000 S.F. LOTS)

DATA		SALES DATE	NO. OF LOTS	LOT SIZE	\$ PER LOT	\$ PER FINISHED LOT
-		Dec-98	68	2,000	\$106,502	\$140,508
	and Avenida Vista Hermosa Talega, San Clemente		•			
2	N/W/C Avenida Talega	Dec-98	80	5,500	\$145,520	\$179,391
	and Avenida Vista Hemosa					
	San Clemente					
က	N/W/C Camino La Pedriza	Dec-98	108	4,950	\$120,568	\$154,284
	and Calle Altea					
4	MMM/C Camino La Pedriza	Dec-08	47	6 000	\$157 225	\$194 272
·] 2	3	•)	2	i i
				•		
2	W/O Crown Valley Pkwy	Mar-99	65	4,250	\$108,462	\$134,000
	N/O Antonio Pkwy					
	"Prescott", Ladera					
9	N/O Crown Valley Pkwy	Mar-99	98	4,500	\$123,953	\$150,000
	W/O Antonio Pkwy					
	Ladera					
7	N/O Crown Valley Pkwy	Mar-99	26	4,750	\$130,412	\$157,000
	W/O Antonio Pkwy					
	"Amberly Lane", Ladera					
8	N/O Crown Valley Pkwy	Mar-99	133	6,000	\$148,797	\$176,000
	W/O Antonio Pkwy	_				
	"Wyeth", Ladera					
6	SWC Oso Pkwy and Morning Trail	Jan-98	131	4,250	\$71,756	\$95,000
!	Las Flores					
10	SW/Side of Antonio Pkwy	Apr-98	83	4,200	\$91,463	\$111,500
	Breezy Meadows					
	Rancho Santa Margarita					
11	Southeast side Meandering Trail	Dec-97	78	4,750	\$92,308	\$110,000
	Trail, 750 ft. south of Oso Pkwy					
	Las Flores	-			100 01 14	() () () () () () () () () ()
12	Northwest Side of Avendia Banderas	Jan-99	66	4,000	\$ 140,905	000,191\$
	Altonzano, Rancho Santa Margarita					
13	South of El Toro Road	Jan-99	75	4,000	\$173,905	N/A
	East of Foothill Transportation					
	Corridor, Mission Viejo					

RESIDENTIAL LOT SALES (4000 to 6000 S.F. LOTS)

DATA	LOCATION	SALESDATE	NO OF LOTS	I OT SIZE	S PER I OT	S PER FINISHED I OT
14	Terminus of Be	Jan-98	49	5,000	\$118,543	\$126,500
	at Vela Court					
7	Southerly of Oco Diviny	70 VOIA	1/2	6 500	£125 135	\$483 000
2	and Coto de Caza Drive	16-AON	<u> </u>	000,0	001,001	000,001
16	East of Olympiad Road,	Oct-98	121	2,000	A/N	\$150,000
	South of Alicia Pkwy					
	Mission Viejo					
17	East of Olympiad Road	Sep-98	20	2,500	∀ Z	\$155,000
	South of Alicia Pkwy					
	Mission Viejo					
2	North side Pursuit; South of Liberty	Apr-98	53	4,000	\$88,302	\$117,500
	Aliso Viejo				•	
19	Southwest side of Pacific Park Drive	26-caQ	154	5,100	\$102,597	\$122,000
-	Drive and Northwest of Wood Canyon Dr.					
	Aliso Viejo					
50	North of Camino Las Ramblas	Escrow	92	000'9	\$193,478	\$265,000
	East of I-5	failed				
	San Juan Capistrano					
21	Planning Area 2-G	Dec-98	139	4,250	\$101,500	\$133,320
	Talega, San Clemente					
22	"Hampton Road"	May-00	82	4,000	\$158,675	\$203,000
	Village 2, Ladera Ranch					
23	"Belmont Hill"	Mar-00	72	2,500	\$148,056	\$204,000
	Village 2, Ladera Ranch					
24	E/O Sarmentosa between	Mar-00	94	000'9	\$149,154	\$199,154
	Camino Vera Cruz and Camino del Rio					
	Planning Area 3-B					
	Foster Ranch, San Clemente					
25		Mar-00	95	5,500	\$147,826	\$222,000
	Camino Vera Cruz and Camino del Rio					
			·			
	Foster Ranch, San Clemente					
56	S'ly Corner Trevino and Jamboree Road, West Irvine	Apr-00	113	4,800	\$182,021	\$219,500

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	RESIDENTIA	RESIDENTIAL LOT SALES (4000 to 6000 S.F. LOTS)	s (4000 to 600	00 S.F. LO	TS)	
DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	S PER LOT	SALES DATE NO. OF LOTS LOT SIZE \$ PER LOT \$ PER FINISHED OT
27	E'ly Corner Jamboree Road	May-00	126	4,400	\$159,300	\$194,300
	and Robinson Drive, West Irvine	•			,	
78	PA 22A & 22B	1st Quarter	102	4,500	\$138,000	\$175.446
	Ladera	2001			,	
29	PA 24A, 22B, 24C	1st Quarter	66	5,000	\$149,495	\$188,975
	Ladera	2001			,	
30	PA31	1st Quarter	58	5,500	\$162,517	\$195,020
	Ladera	2001				
31	PA 2-S	Dec-00	58	5,500	\$146.551	\$177.647
	N/S Camino La Pedriza					
	W/S Calle Vista Del Sol					
	Talega, San Clemente					
32	PA 2-Q	Jan-01	107	5.000	\$126.131	\$160.143
	E/S Camino La Pedriza					
	N/O Via Amor					
	Talega, San Clemente					

RESIDENTIAL LOT SALES (6000+ S.F. LOTS)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	\$ PER LOT	\$ PFR FINISHED I OT
-	Tustin Ranch	Mar-99	46	9,500	\$240,000	\$336.000
5	Terminus of Capistrano By Sea Dana Point	Dec-97	20	10,000-12,000	\$200,000	\$300,000
က	SWC Ortega Hwy	Apr-98	7	9,200-14,000	\$150,000	\$180,000
	& Avenida Siega, San Juan Capistrano					
4	North of Camino Las Ramblas,	Pending	87	8,750	\$192,110	\$240,000
	San Juan Capistrano					
5	South of Oso Pkwy	Mar-98	06	6,300	\$170,000	\$265,000
	and Coto de Caza Dr.)	000,000
	Coto de Caza			-		
9	Indiviual Lot Sales					
	Cota De Caza					
	11 Augusta	Jan-98	τ-	10000		\$249,000
	15 Sawgrass	Sep-98	-	23000		\$389,000
	9 Shire	Apr-98	-	14000		\$319,000
7	Planning Area 2-B		14	11 200		\$346 201
	Talega, San Clemente	-				77102
80	Planning Area 2-V		61	6,300		\$234 759
	Talega, San Clemente					
6	"Auburn Hill"	Pending	71	6,300	\$198.333	\$232 000
	Village II, Ladera Ranch)				0001
5	E/O Sarmentosa between	Mar-00		000'9	\$171,717	\$224 217
	Camino Vera Cruz and					
	Camino del Rio, PA 3-A					
	Foster Ranch, San Clemente					
		Α				

MARKET DATA - ATTACHED PRODUCT

\$ / UNIT	\$51,724	\$32,626	\$18,842	\$16,204	\$23,173	\$25,661	\$44,118	\$28,642	\$45,238	\$50,465	\$68,860	\$70,435	\$62,891
SALES PRICE	\$13,113,000	\$40,000,000	\$7,160,000	\$3,500,000	\$14,500,000	\$3,182,000	\$4,500,108	\$6,014,820	\$11,400,000	\$941,621	\$1,084,155	\$999,520	\$868,320
SIZE(ACRES)	29.6	28	11.7	7.2	17.1	5.2	5.02	9.73	10	6'9	8.8	6.3	9.7
UNITS / DENSITY	539 / 18.2	1226 / 43.8	380 / 32.5	216 / 30	428 / 25	124 / 23.8	102 / 20.3	210 / 21.6	252 / 25.2	128 / 18.6	138 / 15.7	132 / 14.2	102 / 20.3
SALES DATE	Dec-98	Aug-98	Mar-98	Mar-98	Dec-97	Nov-96	96-Inc	Apr-98	Aug-00	96-InC	00-Inf	00-Inf	Jan-00
LOCATION	NE'ly corner of McArthur Blvd. and Bonita Canyon Road Newport Beach	S'ly corner of Jamboree Rd and Michelson Drive Irvine	NWC Los Altos and La Alamenda Mission Vieio	NEC Los Altos and La Alamenda Mission Viejo	SEC Aliso Creek Road and Terrace View Drive Aliso Vielo	NEC Wood Canyon Drive and Oakgrove Aliso Vielo	SW'ly corner of Pine Brook and Hawkcreek Oakcreek Village, Irvine	NEC of Alton Parkway and Valley Oak Drive Oakcreek Village, Irvine	Planning Area 2-0 Talega, San Clemente	NWC View Park and Visalia Northpark, Irvine	SWC Robinson Drive and Waterman West Irvine	Ely Corner Robinson Drive and Waterman West Irvine	N/S Alton Pkwy between Royal Oak and Valley Oak Oakcreek Village, Irvine
DATA	_	7	င	4	2	9	7	80	б	10	-	12	13

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MARKET DATA - ATTACHED PRODUCT

DATA	LOCATION	SALES DATE	SALES DATE UNITS / DENSITY SIZE(ACRES) SALES PRICE \$ / UNIT	SIZE(ACRES)	SALES PRICE	LINII / \$
14	14 Planning Area 1-Phase III	1st Quarter	158 / 18.59	8.5	\$5,610,000	\$59.077
	Ladera Ranch	2001				· · · · · · · · · · · · · · · · · · ·
15	15 Planning Area 2-Phase III	1st Quarter	100 / 13.89	7.2	\$4,600,000	\$74.016
	Ladera Ranch	2001				
16	16 Planning Area 3-Phase III	1st Quarter	130 / 12.62	10.3	\$66.692	\$92.273
	Ladera Ranch	2001			1	
17	17 Planning Area 4A & 4B	1st Quarter	144 / 14.40	10.0	\$46 444	\$64 440
	Phase III	2001				
	Ladera Ranch					

MARKET DATA - COMMERCIAL / BUSINESS

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	PRICE PER SQ. FT.
-	Northern Portion of Pacific San Juan	Mar-99		13 acres	\$12
	aka North R & D site, San Juan Capistrano				
2	Southeast quadrant of Santa Magarita Pkwy	Escow		3.15 acres	\$12.97
	and Foothill Transportation				
	Corridor, Rancho Santa Margarita				
က	West side of Lake Forest	Mar-98		10.2 acres	\$6.49
	Drive at Regency Lane,				
	Lake Forest				
4	Northwest Corner	Aug-97		12.86 acres	\$13.00
	Aliso Creek Road &	-			
	La Paz Road, Laguna Niguel				
2	S'ly corner Laguna	Nov-97		5.1 acres	\$14.00
	Hills Dr. and Liberty,				
	Aliso Viejo				
9	Wraps around SWC	Dec-97		7.88 acres	\$16.22
	Aliso Creek Road and				
	Pacific Park Drive,				
	Aliso Viejo				
7	West side Aliso Creek	Dec-97		4.87 acres	\$15.00
	Road, opposite Autumn				
	Glen, Aliso Viejo				
8	N/S El Toro Road,	96-Inc		10.31acres	\$15.59
	W/O Moulton Pkwy,				
_	Laguna Hills				
6	N'iy corner Portola Pkwy	Dec-98		6.58 acres	\$12.67
	and Lake Forest Drive,				
	Foothill Ranch				

BUSINESS MARKET SUMMARY

DAIA	LOCATION	SALES DATE	NET ACRES	SALE PRICE	\$/SQ. FT.
-	Nly Cor. Ave. Pico & La Pata	Jan-99	1.19	\$525,000	\$10.10
	San Clemente	•		•	•
2	Ely Cor. Ave. Pico & La Pata	96-Inc	6.45	\$1,900,000	\$6.76
	San Clemente				•
3	N/S Ave. La Pata, Opp. C. Amanecer	Oct-98	1.62	\$635,500	\$9.00
	San Clemente			•	•
4	SWC Ave. La Pata & C. Del Cerro	Sep-98	5.47	\$1,668,000	\$7.00
	San Clemente				
4 A	SWC Ave. La Pata & C. Del Cerro	66-unf	5.47	\$2,204,000	\$9.25
	San Clemente				
ည	E/S C. Sombra, N/O C. Amanecer	May-98	1.51	\$625,000	\$9.25
	San Clemente	_		•	
9	N/S Ave. La Pata, W.O C.Amanecer	Sep-97	2.59	\$875,000	\$9.65
	San Clemente			•	•
7	At junction of Puerta Del Sol & C. Alicante	Dec-00	1.88	\$790,000	\$9.65
	San Clemente				
&	Btwn Avenida Vista Hermosa & C. Alicante	Dec-00	13.78	\$5,702,440	\$9.50
	San Clemente				
6	S/S of Puerta Del Sol at Avenida Hermosa	Sep-00	4.26	\$1,699,775	\$9.00
	San Clemente	·			
10	S/S of Puerta Del Sol	Dec-00	5.37	\$2,311,700	9.88
_	E/O Avenida Hermosa, San Clemente				
=	S/S of Puerta Del Sol	Sep-00	0.93	\$410,000	10.12
	E/O Avenida Hermosa, San Clemente		•		

DISCOUNTED CASH FLOW ANALYSES

Premise A

Talega Associates LLC Ownership
Including Age Restricted Lands

ASSUMPTIONS MATRIX

Talega Valley Talega CFD 90-2

--- Parcel's Land-Use Designations ---

Montery & Miraleste Monterey & Miraleste Monterey 3 3 5 18.5 170,000 73 4,	PRODUCT	DEV.		Res.	NET	PRICE	PRICE	NET	LOT SIZE
Monterey & Miraleste 3 3E 18.5 170.000 73 4			VILLAGE			/ SQ. FT.	PER LOT	LOTS	OR DENSITY
Monterey			<u> </u>						
Monterey		3	3E	18.5			170,000	73	4,950
Maraleste							190,000	135	4,950
Miraleste			+				170,000	36	5,000
Montellano & Pacifica Summit							190,000	95	5,000
Montellano & Pacifica Summit 4 4D 25.7 275.000 69 7 Montellano 5 5C 28.9 275.000 77 7, Pacifica Summit 4 4B 19.9 250,000 67 6. Pacifica Summit 5 5B 24.9 250,000 67 6. Montellano & Pacifica Summit Totals 99.40 305 305 305 Small Lot SFD & Cantabria 3 3F 23.4 200.000 88 5. Small Lot SFD & Cantabria 3 3F 23.4 200.000 88 5. Cantabria 5 5E 24.7 200.000 130 5. Samil Lot SFD & Cantabria Totals 78.9 305 305 305 305 Birch Hills & Trinidad 3 3A 7.6 90.000 98 305 Stone Ridge, Northwood & Carmel 3 3C 15.3 15.000 79 4 Northwood 3		leste Totals		77.6				339	
Montellano									
Montellano		4	4D	25.7			275,000	69	7,560
Pacifica Summit		5	5C	28.9			275,000	77 _	7,560
Pacifica Summit		4	+	19.9					6,300
Montellano & Pacifica Summit Totals 99.40 305		5	5B	24.9			250,000	92	6,300
Small Lot SFD & Cantabria 3 3F 23.4 200,000 88 5. Cantabria 4 4C 30.8 200,000 130 5. Cantabria 5 5E 24.7 200,000 87 5. Small Lot SFD & Cantabria Totals 78.9 305 305 305 Birch Hills & Trinidad 3 3A 7.6 90,000 98 98 Birch Hills 3 3A 7.6 90,000 98 98 98 98 98 98 98 98 99 98 98 99 98 98 99 98 98 99 98 98 99 98 99 98 99 98 98 99 98 99 98 99 98 99 98 99 99 99 98 99 99 98 99 99 99 99 99 99 99 99 99 99	Montellano & Pacifica Su	mmit Totals		99.40				305	
Small Lot SFD 3 3F 23.4 200.000 88 5.									
Cantabria 4 4C 30.8 5 200,000 130 5 5 Cantabria 5 5E 24.7 200,000 87 5 Birch Hills & Trinidad 78.9 305 Birch Hills & Trinidad 90,000 98 98 Birch Hills & Trinidad Totals 20.9 196 Stone Ridge, Northwood & Carmel 20.9 196 Stone Ridge Northwood & Carmel 3 3C 15.3 150,000 79 4 Northwood 3 3D 13.5 125,000 71 3 Carmel 2 2W 3.4 175,000 27 Stone Ridge, Northwood & Carmel Totals 32.2 177 Vizcaya Semi & Custom Est. 32.2 177 Vizcaya 4 4 4E 11.8 350,000 31 11 Semi Custom Est. 6 6D 13 300,000 45 9 Semi Custom Est. 6 6E 8.3 300,000 45 9 Semi Custom Est. 6 6E 8.3 350,000 16 12		3	3F	23.4			200,000	88	5,775
Stone Ridge			4C	30.8					5,500
Small Lot SFD & Cantabria Totals 78.9 305		5	5E	24.7			200,000	87	5,500
Birch Hills		abria Totals	ĺ	78.9				305	
Birch Hills	Birch Hills & Trinidad		l .						
Trinidad Sirch Hills & Trinidad Totals 20.9 196		3	ЗА	7.6					12.9
Stone Ridge, Northwood & Carmel Stone Ridge Northwood & Carmel Stone Ridge S		3	3B	13.3			110,000	98	7.4
Stone Ridge 3 3C 15.3 150.000 79 4		nidad Totals		20.9				196	
Stone Ridge 3 3C 15.3 150.000 79 4	Stone Ridge, Northwood & Carmel								
Northwood 3 3D 13.5 125.000 71 3 3D 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3.5 3D 3D 3D 3D 3D 3D 3D 3		3	3C	15.3					4,500
Stone Ridge, Northwood & Carmel Totals 32.2 175,000 27		3	3D	13.5					3,825
Stone Ridge, Northwood & Carmel Totals 32.2 177		2	2W	3.4		<u> </u>	175,000	27	7.9
Vizcaya 4 4A 12.6 350.000 31 11 Vizcaya 4 4E 11.8 350.000 27 11 Semi Custom Est. 6 6D 13 300.000 45 9 Semi Custom Est. 6 6E 8.3 300,000 20 9 Semi Custom Est. 6 6C 14.9 300,000 43 9 Custom Est. 6 6B 8.8 350,000 16 12 Vizcaya , Semi & Custom Est. Totals 69.4 182 Town Centers Village Center A TC TC-A 17.6 100,000 204 Village Center B TC TC-B 12 100,000 125 Town Centers Totals 29.6 329 Business Park N/A 49.59 9.50 Business Park Totals		rmel Totals		32.2				177	
Vizcaya 4 4A 12.6 350.000 31 11 Vizcaya 4 4E 11.8 350.000 27 11 Semi Custom Est. 6 6D 13 300.000 45 9 Semi Custom Est. 6 6E 8.3 300,000 20 9 Semi Custom Est. 6 6C 14.9 300,000 43 9 Custom Est. 6 6B 8.8 350,000 16 12 Vizcaya , Semi & Custom Est. Totals 69.4 182 Town Centers Village Center A TC TC-A 17.6 100,000 204 Village Center B TC TC-B 12 100,000 125 Town Centers Totals 29.6 329 Business Park N/A 49.59 9.50 Business Park Totals	Vizcaya , Semi & Custom Est.								<u> </u>
Vizcaya 4 4E 11.8 350,000 27 11 Semi Custom Est. 6 6D 13 300,000 45 9 Semi Custom Est. 6 6E 8.3 300,000 20 9 Semi Custom Est. 6 6C 14.9 300,000 43 9 Custom Est. 6 6B 8.8 350,000 16 12 Vizcaya , Semi & Custom Est. Totals 69.4 182 Town Centers Village Center A TC TC-A 17.6 100,000 204 Village Center B TC TC-B 12 100,000 125 Town Centers Totals 29.6 329 Business Park Business Park N/A 49.59 9.50		4	4A	12.6			350,000		11,200
Semi Custom Est. 6 6E 8.3 300,000 20 9		4	4E	11.8					11,200
Semi Custom Est. 6 6E 8.3 300,000 20 9 Semi Custom Est. 6 6C 14.9 300,000 43 9 Custom Est. 6 6B 8.8 350,000 16 12 Vizcaya , Semi & Custom Est. Totals 69.4 182 Town Centers Village Center A TC TC-A 17.6 100,000 204 Village Center B TC TC-B 12 100,000 125 Town Centers Totals 29.6 329 Business Park Business Park N/A 49.59 9.50 Business Park Totals	Semi Custom Est.	6	6D	13					9,000
Custom Est. G GB 8.8 350.000 16 12	Semi Custom Est.	6							9,000
Vizcaya , Semi & Custom Est. Totals 69.4 182	Semi Custom Est.	6	6C			ļ			9,000
Town Centers				8.8			350,000		12,000
Village Center A TC TC-A 17.6 100,000 204 Village Center B TC TC-B 12 100,000 125 Town Centers Totals 29.6 329 Business Park N/A 49.59 9.50 Business Park Totals 49.59 49.59	Vizcaya , Semi & Custon	n Est. Totals	3	69.4		ļ <u> </u>		182	
Village Center A IC IC-A II.2 100.000 125 Village Center B TC TC-B 12 100.000 125 Business Park Business Park N/A 49.59 9.50 Business Park Totals 49.59 9.50	Town Centers								44.5
Village Center B TC TC-B 12 100,000 125 Town Centers Totals 29.6 329 Business Park N/A 49.59 9.50 Business Park Totals 49.59 49.59	Village Center A	TC							11.5
Business Park	Village Center B						100,000		10.4
Business Park N/A 49.59 9.50 Business Park Totals 49.59 9.50	Town Ce	nters Totals		29.6		<u> </u>		329	
Business Park Totals 49.59	Business Park					<u> </u>			
Dusiness Lark Totals				<u> </u>		9.50		<u></u>	
Grand Total 408.00 49.59 1833	Business	Park Totals]	49.59	1			<u> </u>

Grand Total

408.00

49.59

Gen Dev Costs (before finance costs)	233,259,070
Appreciation of Property	5.00% 4.00%
Indirect Costs	
Admin./Conting	0.50% 1.00%
Const Loan Interest Rate (includes pts) Loan Repayment (% of Revenues) Discount Rate Each time period = Annual	8.00% 90.00% 25.00%
CONCLUSIONS	
Present Value of the Property (millions)	\$89.536

Properties Productory & Methods Productory & Ministeries Productory	ABSORPTION SCHEDULES				Annual							
Color Colo	Potential Products					Loī	S / ACRES	ABSORBE	0			
AMERICAL PLOTS ACRES 1 2 3 4 5 6 TOTALS	PRODUCT	DEV.	NET	NET .			PERIC	DS			LIND	ACRE
S	TYPE	PHASE	LOTS	ACRES	1	2	3	4	5	9	TOTALS	TOTALS
S 13.00	Monterey & Miraleste											
135 00 1	Monterey	3	73.00			73.00					73.00	
5 95 00	Monterey	5	135.00					135.00			135.00	
Second S	Miraleste	3	36.00			36.00					36.00	
A	Miraleste	2	95.00					95.00			95.00	
S		leste Totals	339.00			109.00		230.00			339.00	
4 69.00 77.00 69.00	Montellano & Pacifica Summit											
State Stat	Montellano	4	00.69		 -			00.69			69.00	
Cardabrila Car	Montellano	2	77.00				_		77.00		77.00	
S	Pacifica Summit	4	00.79				00.79				67.00	
State Summit Totals 305.00 305.	Pacifica Summit		92.00						92.00		92.00	
Second Second	Montellano & Pacifica Sur		305.00				67.00	00.69	169.00		305.00	
3 88 00 130 00 87 00 130 00	Small Lot SFD & Cantabria											
Small Lot SFD & Cartabria Totals 3 130 00	Small Lot SFD	3	88.00			88.00					88.00	
Small Lot SFD & Caritabria Totals 87 00	Cantabria	4	130.00				130,00				130.00	
Small Lot SFD & Cantabria Totals 305.00 88.00 130.00 87.00 87.00 305.00 s. & Trinidad 3 98.00 98.00 98.00 98.00 98.00 Serial Experimental Blick Hills & Trinidad Totals 196.00 98.00 98.00 98.00 98.00 98.00 Ige. Northwood & Carmel 3 75.00 75.00 75.00 75.00 Gorden Exit 3 75.00 77.00 77.00 77.00 77.00 Semil & Custom Exit 4 27.00 77.00 77.00 77.00 77.00 Semil & Custom Exit 4 27.00 77.00 77.00 77.00 77.00 Semil & Custom Exit 6 45.00 77.00 77.00 77.00 77.00 Semil & Custom Exit 6 45.00 77.00 77.00 45.00 45.00 Iom Exit 6 45.00 77.00 45.00 45.00 45.00 Iom Exit 6 45.00 77.00 45.00 <t< td=""><td>Cantabria</td><td>5</td><td>87.00</td><td></td><td></td><td>-</td><td></td><td>87.00</td><td>-</td><td></td><td>87.00</td><td></td></t<>	Cantabria	5	87.00			-		87.00	-		87.00	
3 98 00 98		abria Totais	305.00			88.00	130.00	87.00			305.00	
10 10 10 10 10 10 10 10	Birch Hills & Trinidad											
Blich Hills & Trinidad Totals 3 96 00 98 00	Birch Hills	3	00 86			98.00	-				00 86	
Blich Hills & Trinidad Totals 196 00 196 0	Trinidad	3	98.00				98.00				98.00	
thwood & Carmel 3 79.00 79.00 71.00 79.00 19. Custom Est. 2 27.00 71.00 77.00 77.00 77.00 Custom Est. 4 31.00 71.00 27.00 27.00 27.00 27.00 Custom Est. 4 27.00 31.00 27.00		nidad Totals	196.00			98.00	98.00				196 00	
3	Stone Ridge Northwood & Carmel										20.00	***************************************
Gustom Est. 3 71,00 <	Stone Ridge		79.00				79.00				70.07	
Unit Grand Business Park Totals Vision Fig. Co.00 27.00	Northwood	, -	71.00				71.00				74.00	
ige, Northwood & Carmel Totals 177.00 150.00 177.00 Custom Est. 4 27.00 27.00 177.00 Custom Est. 4 27.00 27.00 27.00 45.00 6 27.00 45.00 27.00 45.00 27.00 45.00 8 27.00 45.00 27.00 45.00 27.00 45.00 94a, Semil & Custom Est. Totals 182.00 16.00 16.00 16.00 16.00 Aya, Semil & Custom Est. Totals 17C 204.00 204.00 125.00 125.00 125.00 TOwn Centers Totals 329.00 204.00 125.00 13.59 15.00 204.00 Business Park Totals 49.59 16.00 20.00 476.00 230.00 90.00 1833.00 ACRE GRAND TOTALS 49.59 16.00 20.00 476.00 476.00 476.00 90.00 1833.00	Carmel	, ,	27.00				3			27.00	27.00	
Custom Est. 4 31.00 17.00 <	н	armoi Totale	177 00				150.00			37.00	477.00	
Custom Est. 4 31.00 31.00 31.00 31.00 31.00 31.00 27.00 45.00 27.00 45.00 27.00 45.00 27.00 45.00 27.00 45.00 27.00 45.00 27.00 45.00 27.00 45.00 20.00 20.00 20.00 20.00 20.00 20.00 20.00 20.00 20.00 20.00 43.50 43.50 43.50 44.50 <	Stolle Niuge, Nolliwood & Co.	attilei lotais	20.77				130.00			77.00	00.771	
A 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 31.00 32.00	Vizcaya, Semi & Custom Est.											
4 27.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 45.00 20.00 20.00 20.00 20.00 20.00 20.00 20.00 45.00 46.00 476.00 <td>Vizcaya</td> <td>4</td> <td>31.00</td> <td></td> <td></td> <td></td> <td>31.00</td> <td></td> <td></td> <td></td> <td>31.00</td> <td></td>	Vizcaya	4	31.00				31.00				31.00	
Semi & Custom Est. Totals 182.00 204.00 125.00 13.50 145.00 20.0	Vizcaya	4	27.00					27.00			27.00	
aya , Semi & Custom Est. Totals 16 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Semi Custom Est.	9	45.00						45.00		45.00	
aya , Semi & Custom Est. Totals 43.00	Semi Custom Est.	9	20.00							20.00	20.00	
ccaya , Semi & Custom Est. Totals 16.00 13.59 1833.00	Semi Custom Est.	9	43.00							43.00	43.00	
Accaya , Semi & Custom Est. Totals 182.00 204.00 204.00 204.00 204.00 204.00 204.00 125	Custom Est.	9	16.00						16.00		16.00	
TC 204.00 204.00 125.0	n	n Est. Totals	182.00				31.00	27.00	61.00	63.00	182.00	
TC 204.00 204.00 125.0	Town Centers											
TC 125.00 125.0	Village Center A	TC	204.00		204.00						204.00	
Town Centers Totals 329.00 204.00 125.00 329.00 329.00		10	125.00			125.00					125.00	
N/A 49.59 16.00 20.00 13.59		nters Totals	329.00		204.00	125.00					329.00	
NI/A 49.59 16.00 20.00 13.59 16.00 20.00 13.59 16.00 20.00 13.59 16.00 20.00 413.00 230.00 1833.00 20.00 13.59 20.00 13.59 20.00 13.59 20.00 230												
Business Park Totals 49.59 16.00 20.00 13.59 90.00 1833.00 UNIT GRAND TOTALS 1833.00 16.00 20.00 476.00 413.00 230.00 90.00 1833.00 ACRE GRAND TOTALS 18.59 16.00 20.00 13.59 13.59 13.59 13.59	Business Park	A/A		49.59	16.00	20.00	13.59					49.59
1833.00		Park Totals		49.59	16.00	20.00	13.59					49.59
49.59 16.00 20.00 13.59	UNIT GRAND	TOTALS	1833.00		204.00	420.00	476.00	413.00	230.00	90.00	1833.00	
	ACRE GRAND	TOTALS		49.59	16.00	20.00	13.59					49 59

Potential Products				,									
PRODUCT	DEV.	PRICE	PRICE	SQ.FT.	NET -	NET .	7		PERIODS.	SOC			14101
	LINGE	LCN LOI	- 0g	רבת בטו	FO13	ACRES	-	7	, 	+	2		10181
Monterey & Miraleste													
Monterey	3	170,000		4,950	73			12.410					12.410
Monterey	5	190,000		4,950	135				_	25.650			25.650
Miraleste	3	170,000		5,000	36			6.120					6.120
Miraleste	5	190,000		2,000	95					18.050			18.050
Monterey & Miraleste Totals	leste Totals				339			18.530		43.700			62.230
Monteliano & Pacifica Summit													
Montellano	4	275,000		7,560	69					18.975	-		18.975
Montellano	5	275,000		7,560	77						21.175		21.175
Pacifica Summit	4	250,000		6,300	- 67				16.750				16.750
Pacifica Summit	5	250,000		6,300	92					 	23.000		23,000
Montellano & Pacifica Summit Totals	mmit Totals				305				16.750	18.975	44.175		79.900
Small Lot SFD & Cantabria									Annual Control				
Small Lot SFD	3	200,000		5,775	88			17.600					17.600
Cantabria	4	200,000		5,500	130				26.000				26.000
Cantabria	5	200,000		005'5	87					17.400			17.400
Small Lot SFD & Cantabria Totals	tabria Totals				305.00			17.600	26.000	17.400			61.000
Birch Hills & Trinidad													
Birch Hills	3	000'06		13	86			8.820					8.820
Trinidad	3	110,000		1	98				10.780				10.780
Birch Hills & Trinidad Totals	nidad Totals				196.00			8.820	10.780				19.600
Stone Ridge, Northwood & Carmel													
Stone Ridge	3	150,000		4,500	79				11.850				11.850
Northwood	3	125,000		3,825	71				8.875				8.875
Carmel	2	175,000		8	27							4.725	4.725
Stone Ridge, Northwood & Carmel Totals	armel Totals				177.00				20.725			4.725	25.450
Vizcaya, Semi & Custom Est.													
Vizcaya	4	350,000		11,200	31				10.850				10.850
Vizcaya	4	350,000		11,200	27					9.450			9.450
Semi Custom Est.	9	300,000		000'6	45						13.500		13.500
Semi Custom Est.	9	300,000		000'6	20						-	000.9	6.000
Semi Custom Est.	9	300,000		000'6	43							12.900	12.900
Custom Est.	9	350,000		12,000	16						5.600		5.600
Vizcaya , Semi & Custom Est. Totals	n Est. Totals				182.00				10.850	9.450	19.100	18.900	58.300
Town Centers													
Village Center A	TC	100,000		12	204		20.400						20.400
Village Center B		100,000		10	125			12.500					12.500
Town Cei	Town Centers Totals				329.00		20.400	12.500					32.900
Business Park													
Business Park	N/A		9.50			49.59	6.621	8.276	5.624				20.521
Business	Business Park Totals					49.59	6.621	8.276	5.624				20.521
GRAND TOTALS	TOTALS				1833.00	49.59	27.021	65.726	90.729	89.525	63.275	23.625	359.901

MILLIONS

	CASH	SASH FLOW ANALYSIS		OF THE PROJECT				
		0 0 0 0 0 0 0 0 0 0 0 0		PERIOD.				
		-	7		4	ĸ	9	TOTAL
PROJECT REVENUES:								
Revenues		\$27.021	\$65.726	\$90.729	\$89.525	\$63.275	\$23.625	\$359.901
Adjusted Revenues		\$28.372	\$72.463	\$105.030	\$108.818	\$80.757	\$31.660	\$427.100
Price Inflation (Annually)	2.00%							
Other Revenue - SMWD 99-1		10.600						
Other Revenue - Marblehead					5.880			
PROJECTED REVEUES:		38.972	72.4634	105.0299	114.698	80.7567	31.6598	443.580
PROJECT COSTS:								
DIRECT COSTS								
Direct Construction Costs (W/OUT Land):								
Total Backbone Cost		\$21.887	\$28.320	\$43.000	\$36.000	\$22.050	\$6.800	\$158.057
Bridge Costs		\$2.133	\$6.838	\$2.047	\$2.956			\$13.974
Additional Costs		\$6.188	\$12.812	\$14.863	\$12.748	\$5.268	\$2.924	\$54.803
Vista Hermosa Interchange		6.425						\$6.425
Total Adjusted Direct Costs		\$35.623	\$44.489	\$65.088	\$57.028	\$33.236	\$12.304	\$247.768
INDIRECT COSTS								
Ad Valorem Prop Tax & CFD Tax		\$1.320	\$1.478	\$0.554	\$0.136	\$0.750	\$0.170	\$4.408
1% Builder Ad Umbrella	12.633	(\$0.948)	(\$2.307)	(\$3.185)	(\$3.142)	(\$2.221)	(\$0.829)	(\$12.633)
Admin./Conting.	0.50%	\$0.142	\$0.362	\$0.525	\$0.544	\$0.404	\$0.158	\$2.136
Sale & Marketing	1.00%	\$0.284	\$0.725	\$1.050	\$1.088	\$0.808	\$0.317	\$4.271
Total Indirect Costs		\$0.797	\$0.258	(\$1.055)	(\$1.374)	(\$0.260)	(\$0.184)	(\$1.818)
TOTAL DIRECT & INDIRECT COSTS		\$36.420	\$44.747	\$64.032	\$55.654	\$32.976	\$12.120	\$245.950
Interest on Current Draw	8.00%	\$1.457	\$1.790	\$2.561	\$2.226	\$1.319	\$0.485	\$9.838
TOTAL COSTS		\$37.877	\$46.537	\$66.594	\$57.880	\$34.295	\$12.604	\$255.788
REVOLVING LOAN FUND								
Loan Draw on Direct Costs - reimbursements		\$36.420	\$44.747	\$64.032	\$55.654	\$32.976	\$12.120	\$245.950
Loan Repayment		\$25.535	\$55.632	\$64.032	\$55.654	\$32.976	\$12.120	\$245.950
Loan Balance		\$10.886						
Tot Period Loan Interest		\$1.457	\$2.661	\$2.561	\$2.226	\$1.319	\$0.485	\$10.709
Loan Repayment (% of Revenues)	%00.06							
TOTAL COSTS		\$37.877	\$47.407	\$66.594	\$57.880	\$34.295	\$12.60	\$256.658
CASH FLOW ANALYSIS								
Nominal Dollars:								
Cash Flow - Year		\$1.095	\$25.056	\$38.436	\$56.818	\$46.461	\$19.055	\$186.922
Cumulative		\$1.095	\$26.151	\$64.587	\$121.405	\$167.866	\$186.922	\$186.922
Mid Annual Period Discount Factor		0.500	1.500	2.500	3.500	4.500	5.500	
Discount Factor:	25.00%	0.8944	0.7155	0.5724	0.4579	0.3664	0.2931	
Discounted Cash Flow		\$0.979	\$17.929	\$22.002	\$26.020	\$17.021	\$5.585	\$89.536
Cumulative	\$89.536	\$0.979	\$18.908	\$40.910	\$66.930	\$83.951	\$89.536	

Backbone Costs

Periods

VILLAGE	1	2	3	4	5	6	Totals
2-B		1.620					1.620
TC-A,TC-B	17.437						
3		22.250	22.250				44.500
4			20.750	20.750			41.500
5				15.250	15.250		30.500
6					6.800	6.800	13.600
Business Park	4.45	4					8.900
Totals	21.887	28.320	43.000	36.000	22.050	6.800	158.057

Potential Products												
PRODUCT TYPE	DEV. PHASE	Unit Totals	Acre Totals	Lot Size	P tool to I	Periods	·	~	•	u	ď	F
Monterey & Miraleste						-		,	•	,	•	lotals
Monterey	3	73.00		4,950	29,143		2.13					2 13
Monterey	5	135.00		4,950	27,000				3.65			3.65
Miraleste	3	36.00		5,000	29,143		1.05					1.05
Miraleste	5	95.00		5,000	29,143				2.77			2.77
Monterey &	Monterey & Miraleste Totals	339.00			Totals	 	3.18		6.41			9.59
Montellano & Pacifica Summit							-)			
Montellano	4	00.69		7,560	36,500				2.52			2.52
Montellano	5	77.00		7,560	36,500					2.81		2 81
Pacifica Summit	4	67.00		6,300	35,000			2.35				2.35
Pacifica Summit	5	92.00		6,300	3,500					0.32		0.32
Montellano & Pacifica Summit Totals	ca Summit Totals	305.00			Totals			2.35	2.52	3.13		8.00
Small Lot SFD & Cantabria												
Small Lot SFD	3	88.00		5.775	33,000		2.90				T	2 90
Cantabria	4	130.00		5,500	33,000			4.29				4 29
Cantabria	5	87.00		5,500	33,000				2.87			2.87
Small Lot SFD &	Small Lot SFD & Cantabria Totals	305.00			Totals		2.90	4.29	2.87			10.07
Birch Hills & Trinidad												
Birch Hills	3	98.00		12.9	30,000		2.94					2 94
Trinidad	3	98.00		7.4	30,000		-	2.94				2.94
Birch Hills	Birch Hills & Trinidad Totals	196.00			Totals		2.94	2.94				5.88
Stone Ridge, Northwood & Carmel												
Stone Ridge	3	79.00		4,500	28,018			2.21				2.21
Northwood	3	71.00		3,825	28,018		-	1.99				1.99
Carmel	2	27.00		7.9	26,629						0.72	0.72
Stone Ridge, Northwood & Carmel Totals	1 & Carmel Totals	177.00			Totals			4.20			0.72	4.92
Vizcaya , Semi & Custom Est.												
Vizcaya	4	31.00		11,200	35,000			1.09				1.09
Vizcaya	4	27.00		11,200	35,000				0.95			0.95
Semi Custom Est.	9	45.00		000'6	35,000					1.58	i	1.58
Semi Custom Est.	9	20.00		000'6	35,000			-			0.70	0.70
Semi Custom Est.	9	43.00		12,000	35,000						1.51	1.51
Custom Est.	9	16.00		12,000	35,000					0.56		0.56
Vizcaya , Semi & Custom Est.	ustom Est. Totals	182.00			Totals			1.09	0.95	2.14	2.21	6.37
Town Centers												
Village Center A	TC	204.00		11.4	30,335	6.19						6.19
Village Center B	TC	125.00		10.8	30,335		3.79					3.79
MOT	Town Centers Totals	329.00			Totals	6.19	3.79					96.6
Business Park												
Business Park	N/A		49.59									
Busi	Business Park Totals		49.59		Totals							
UNIT GF	UNIT GRAND TOTALS	1833.00		Perlod (Period Grand Totals	6.19	12.81	14.86	12.75	5.27	2.92	54.80
ACRE GF	ACRE GRAND TOTALS		49.59									
				_								

BUILDERS'S COSTS

Premise B
Talega Associates LLC Ownership
Excluding Age Restricted Lands

ASSUMPTIONS MATRIX

Talega Valley Talega CFD 90-2

Parcel's Land-Use Designations ————

PRODUCT TYPE	DEV. PHASE	VILLAGE	Res. Acres	NET ACRES	PRICE / SQ. FT.	PRICE PER LOT	NET LOTS	LOT SIZE OR DENSITY
Monterey & Miraleste	FNASE	VILLAGE	Acres	ACITED	7 302.71.	TERCOT		TORBEROITI
	3	3E	18.5		†	170,000	73	4,950
Monterey Monterey	5	5D	29.1		 	190,000	135	4,950
Miraleste	3	3G	7.7		1	170,000	36	5,000
Miraleste	5	5A	22.3			190,000	95	5,000
Monterey & Mira			77.6		1	100,000	339	+
Montellano & Pacifica Summit	icste rotals							
Montellano	4	4D	25.7		· · · · · · · · · · · · · · · · · · ·	275,000	69	7,560
Montellano	5	5C	28.9	-	†	275,000	77	7,560
Pacifica Summit	4	4B	19.9			250,000	67	6,300
Pacifica Summit	5	5B	24.9			250,000	92	6,300
Montellano & Pacifica Su	<u> </u>		99.40				305	
Small Lot SFD & Cantabria		}						
Small Lot SFD	3	3F	23.4			200,000	88	5,775
Cantabria	4	4C	30.8			200,000	130	5,500
Cantabria	5	5E	24.7		 	200,000	87	5,500
Small Lot SFD & Cant		4	78.9	•	İ		305	1
Birch Hills & Trinidad	T							
Birch Hills	3	3A	7.6			90,000	98	12.9
Trinidad	3	3B	13.3			110,000	98	7.4
Birch Hills & Trir	idad Totals		20.9		j j		196	
Stone Ridge, Northwood & Carmel								
Stone Ridge	3	3C	15.3		-	150,000	79	4,500
Northwood	3	3D	13.5			125,000	71	3,825
Carmel	2	2W	3.4			175,000	27	7.9
Stone Ridge, Northwood & Ca	rmel Totals		32.2				177	
Vizcaya , Semi & Custom Est.								
Vizcaya	4	4A	12.6			350,000	31	11,200
Vizcaya	4	4E	11.8			350,000	27	11,200
Semi Custom Est.	6	6D	13			300,000	45	9,000
Semi Custom Est.	6	6E	8.3			300,000	17	9,000
Semi Custom Est.	6	6C	14.9					
Custom Est.	6	6B	8.8			350,000	16	12,000
Vizcaya , Semi & Custom	Est. Totals		69.4				136	
Town Centers								
Village Center A	TC	TC-A	17.6			100,000	204	11.5
Village Center B	TC	TC-B	12		<u> </u>	100,000	125	10.4
Town Cer	nters Totals		29.6				329	
Business Park								
Business Park	N/A			49.59	9.50			
Business	Park Totals			49.59				
	Grand Total		408.00	49 59			1787	

Grand Total

408.00 49.59

1787

Gen Dev Costs (before finance costs)	231,649,070
Appreciation of Property	5.00% 4.00%
Indirect Costs	
Admin./Conting	0.50% 1.00%
Other Assumptions	
Discount Rate	8.00% 90.00% 25.00%
CONCLUSIONS	
	\$84.105
Admin./Conting	8.00% 90.00% 25.00%

NET NET CLOS ACRES ABSORBED CLOS ACRES ABSORBED CLOS ACRES ABSORBED CLOS ACRES 1	ABSORPTION SCHEDULES				Annual							
Triple	Potential Products	i	1			ГОТ	S / ACRES	ABSORBE	٥			
Year Minieste 3 73 00	TYPE	DEV. PHASE	NET LOTS	ACRES .	1	2	PERIC 3	DS	5	9	UNIT	ACRE TOTALS
y y y 135.00 135.00 135.00 135.00 e So 139.00 139.00 139.00 139.00 139.00 139.00 more & Pacifica Summit 5 39.00 109.00 109.00 139.00 139.00 none & Pacifica Summit 4 69.00 109.00 177.00 69.00 177.00 173.00 Summit 4 60.00 100.00 177.00 177.00 173.00 Summit 4 67.00 177.00 177.00 177.00 177.00 Summit 4 67.00 177.00 177.00 177.00 177.00 Summit 4 67.00 67.00 67.00 177.00 177.00 Summit 4 170.00 67.00 67.00 67.00 177.00 177.00 Summit 5 170.00 67.00 67.00 67.00 67.00 177.00 177.00 Simile E Trinicid 5 170.00 177	Monterey & Miraleste									_		
Particle Particle	Monterey	3	73.00			73.00					73.00	
Both Registry Africates Control of Section 35 000 3	Monterey	5	135.00					135.00			135.00	
Monteleny & Mirelets Totals 395 00 1109 00 109 00	Mirateste	3	36.00			36.00					36.00	
Monitery & Miniersy	Miraleste	5	95.00					95.00			95.00	İ
Manual Color	Monterey & Mira		339.00			109.00		230.00			339.00	
Sample S	Montellano & Pacifica Summit							-				
Summit	Montellano	4	00.69					00.69			69.00	
Summit	Montellano	5	77.00					-	77.00		77.00	
Monthelitation & Pacifica Summit Totals 392 00 392 00 392 00 395	Pacifica Summit	4	00'29				67.00				67.00	
Montellano & Pacifica Summit Totals 305.00	Pacifica Summit	5	92.00						92.00		92.00	
Small Lot SFD & Cantabria 3 88 00 86 00 130 00 87 00 180 00 130 00	Montellano & Pacifica Su		305.00				67.00	69.00	169.00		305.00	
Small Lot SFD & Cantabrita Totals 3 88 00 88 00 130 00 87 00 130 00	Small Lot SFD & Cantabria											
Small Lot SFD & Cantabril a Totals 130 00 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 130 00 00 130 00 130 00 130 00 130 00 130 00 130 00 130	Small Lot SFD	3	88.00			88.00					88.00	
Sample Lot SFD & Cartabria Totals 305.00 87.00	Cantabria	4	130.00				130.00	-			130.00	
Small Lot SFD & Cantabria Totals 305.00 305.00 130.00 67.00	Cantabria	5	87.00					87.00			87.00	
18	Small Lot SFD & Cant	tabria Totals	305.00			88.00	130.00	87.00			305.00	
Birch Hills & Trinidad Totals 3 89 00 98	Birch Hills & Trinidad											
Buth Hills & Trinidad Totals 38 00 99 00 90 00	Birch Hills	3	00.86			98.00					98.00	
Blich Hills & Trinidad Totals 196.00 196.00 98.00 98.00 98.00 196.00	Trinidad	3	00.86				98.00				98.00	
Stone Ridge 3 79.00 79.00 79.00 Jodge, Northwood & Carmel Totals 3 71.00 71.00 71.00 77.00 Stone Ridge, Northwood & Carmel Totals 177.00 27.00	Birch Hills & Trir	nidad Totals	196.00			98.00	98.00				196.00	
Stone Ridge 3 79.00 79	Stone Ridge, Northwood & Carmel											
Stone Ridge, Northwood & Carmel Totals 17.00 17.	Stone Ridge	3	79.00				79.00				79.00	
Stone Ridge, Northwood & Carmel Totals 177.00 27	Northwood	3	71.00				71.00				71.00	
Part Part	Carmel	2	27.00							27.00	27.00	
State Stat			177.00				150.00			27.00	177.00	
A 31.00 A 31.00 B Business Park Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Totals Transment Carbon Contents Carbon Carbon Contents Carbon Contents Carbon Carbon Contents Carbon C	Vizcaya, Seml & Custom Est.											
n Est 6 45.00 27.00 45.00 27.00 n Est 6 45.00 45.00 45.00 45.00 n Est 6 17.00 17.00 17.00 17.00 n Est 6 16.00 16.00 17.00 17.00 17.00 Vizcaya, Seml & Custom Est. Totals 136.00 204.00 204.00 125.00 125.00 125.00 125.00 er B TC 204.00 204.00 125.00 125.00 125.00 125.00 125.00 er B Town Centers Totals 329.00 204.00 125.00 13.59 125.00 125.00 er B N/A 49.59 16.00 20.00 13.59 120.00 128.00 uNT GRAND TOTALS 1787.00 420.00 20.00 413.00 230.00 440.00 1787.00 ACRE GRAND TOTALS 16.00 20.00 13.59 13.30 13.40	Vizcaya	4	31.00				31.00				31.00	
n Est. 6 45.00 45	Vizcaya	4	27.00					27.00			27.00	
n Est. 6 17.00 17	Semi Custom Est.	9	45.00						45.00		45.00	
N ESt. 6 16.00 16	Semi Custom Est.	9	17.00							17.00	17.00	
Vizcaya , Semi & Custom Est. Totals 16.00	Semi Custom Est.	9										
A	Custom Est.	9	16.00						16.00		16.00	
A TC 204.00 204.00 125.00 125.00 125.00 13.59	Vizcaya , Semi & Custorr		136.00				31.00	27.00	61.00	17.00	136.00	
A TC 204.00 204.00 125.	Town Centers											
Example TC 125.00 125.	Village Center A	10	204.00		204.00		-	-			204.00	
Town Centers Totals 329.00 204.00 125.00 329.00 329.00 329.00 329.00 329.00 329.00 329.00 329.00 329.00 329.00 329.00 329.00 320.00 320.00 320.00 320.00 320.00 320.00 320.00 444.00 1787.00 320.00 420.00 476.00 476.00 420.00 42	Village Center B	TC	125.00			125.00					125.00	
N/A 49.59 16.00 20.00 13.59		inters Totals	329.00		204.00	125.00					329.00	
N/A 49.59 16.00 20.00 13.59	Business Park											
Totals 49.59 16.00 20.00 13.59 49.60 ALS 1787.00 476.00 476.00 413.00 230.00 44.00 1787.00 ALS 49.59 16.00 20.00 13.59 49.59 49.59	Business Park	N/A		49.59	16.00	20.00	13.59					49.59
ALS 1787.00 204.00 420.00 476.00 413.00 230.00 44.00 1787.00 415.0	Business	Park Totals		49.59	16.00	20.00	13.59					49.59
ALS (12.59) 16.00 20.00 13.59	UNIT GRAND	TOTALS	1787.00		204.00	420.00	476.00	413.00	230.00	44.00	R	
	ACRE GRAND	TOTALS		49.59	16.00	20.00	13.59					49.59

GROSS REVENUES	MILLIONS												
Potential Products PRODUCT TYPE	DEV. PHASE	PRICE PER LOT	PRICE / SQ.FT.	SQ.FT. PER LOT	NET	NET	-	2	PERIODS	00S	40	د	TOTAL
Monterey & Miraleste										-		,	10101
Monterey	3	170,000		4.950	73			12 410					12 410
Monterey	5	190,000		4 950	135					25.650			25.4
Mirateste	3	170.000		5 000	36			6 120		20.02			6 4 20
Miraleste	2	190,000		5 000	95			0.150		18.050			10 050
Monterey & Miraleste Totals	leste Totals				330			18 530		43 700			10.0
Montellano & Pacifica Summit	2100				SSS			10.530		43.700			62.230
Montaliano	,	000 370		32.1	[
Application	4	000,672		096,7	69					18.975			18.975
Montellano	2	000'672		7,560	"						21.175		21.175
Pacifica Summit	4	250,000		6,300	67				16.750				16.750
Pacifica Summit	2	250,000		6,300	92						23.000		23.000
Montellano & Pacifica Summit Totals	mmit Totals				305				16.750	18.975	44.175		79.900
Small Lot SFD & Cantabria													
Small Lot SFD	3	200,000		5,775	88			17.600					17 600
Cantabria	4	200,000		5,500	130				26.000				26.000
Cantabria	5	200,000		5,500	87					17.400			17.400
Small Lot SFD & Cantabria Totals	abria Totals				305.00			17.600	26.000	17.400			61,000
Birch Hills & Trinidad													
Birch Hills	3	90,000		13	86			8.820					8.820
Trinidad	3	110,000			86				10.780				10.780
Birch Hills & Trinidad Totals	idad Totais				196.00			8.820	10.780				19,600
Stone Ridge, Northwood & Carmel													
Stone Ridge	3	150,000		4,500	79				11.850				11.850
Northwood	3	125,000		3,825	7.1				8.875				8.875
Carmel	2	175,000		8	12							4.725	4.725
Stone Ridge, Northwood &	Carmel Totals				177.00				20.725			4.725	25 450
Vizcaya, Semi & Custom Est.											ľ		
Vizcaya	4	350,000		11,200	31				10.850				10.850
Vizcaya	4	350,000		11,200	27					9.450			9.450
Semi Custom Est.	9	300,000		000'6	45						13.500		13.500
Semi Custom Est.	9	300,000		000'6	17							5 100	5 100
Semi Custom Est.	9										-		
Custom Est.	9	350,000		12,000	16						5.600		5.600
Vizcaya , Semi & Custom	Custom Est. Totals				136.00				10.850	9.450	19.100	5.100	44.500
Town Centers													
Village Center A) LC	100,000		12	204		20.400						20.40
Village Center B	TC	100,000		10	125								12.500
Town Cen	Town Centers Totals				329.00		20.400	12.500					32.90
Business Park								L					
Business Park	N/A		9.50			49.59	6.621	8.276	5.624				20.5
Business Park Tota	Business Park Totals					49.59	6.621		5.624				20 524
					-		J						

	CASH	CASH FLOW ANALYSIS	P	THE PROJECT	T:			
				PERIOD-	QC			
		•	7	က	4	2	9	TOTAL
PROJECT REVENUES:								
Revenues		\$27.021	\$65.726	\$90.729	\$89.525	\$63.275	\$9.825	\$346.101
Adjusted Revenues		\$28.372	\$72.463	\$105.030	\$108.818	\$80.757	\$13.166	\$408.607
Price Inflation (Annually)	2.00%							
Other Revenue - SMWD 99-1		10.600						
Other Revenue - Marblehead					5.880			
PROJECTED REVEUES:		38.972	72.4634	105.0299	114.698	80.7567	13.1664	425.087
PROJECT COSTS:								
DIRECT COSTS								
Direct Construction Costs (W/OUT Land):								
Total Backbone Cost		\$21.887	\$28.320	\$43.000	\$36.000	\$22.050	\$6.800	\$158.057
Bridge Costs		\$2.133	\$6.838	\$2.047	\$2.956			\$13.974
Additional Costs		\$6.188	\$12.812	\$14.863	\$12.748	\$5.268	\$1.314	\$53.193
Cost Inflation (Anually)	4.00%							
Vista Hermosa Interchange		6.425						\$6.425
Total Adjusted Direct Costs		\$35.623	\$44.489	\$65.088	\$57.028	\$33.236	\$10.267	\$245.731
INDIRECT COSTS								
Ad Valorem Prop Tax & CFD Tax		\$1.320	\$1.478	\$0.554	\$0.136	\$0.750	\$0.170	\$4.408
1% Builder Ad Umbrella	11.161	(\$0.871)	(\$2.120)	(\$2.926)	(\$2.887)	(\$2.040)	(\$0.317)	(\$11.161)
Admin./Conting.	0.50%	\$0.142	\$0.362	\$0.525	\$0.544	\$0.404	\$0.066	\$2.043
Sale & Marketing	1.00%	\$0.284	\$0.725	\$1.050	\$1.088	\$0.808	\$0.132	\$4.086
Total Indirect Costs		\$0.874	\$0.445	(\$0.796)	(\$1.119)	(\$0.079)	\$0.051	(\$0.624)
TOTAL DIRECT & INDIRECT COSTS		\$36.498	\$44.934	\$64.291	\$55.910	\$33.157	\$10.317	\$245.107
Interest on Current Draw	8.00%	\$1.460	\$1.797	\$2.572	\$2.236	\$1.326	\$0.413	\$9.804
TOTAL COSTS		\$37.957	\$46.732	\$66.863	\$58.146	\$34.483	\$10.730	\$254.911
REVOLVING LOAN FUND								
Loan Draw on Direct Costs - reimbursements		\$36.498	\$44.934	\$64.291	\$55.910	\$33.157	\$10.317	\$245.107
Loan Repayment		\$25.535	\$55.897	\$64.291	\$55.910	\$33.157	\$10.317	\$245.107
Loan Balance		\$10.963						
Tot Period Loan Interest		\$1.460	\$2.674	\$2.572	\$2.236	\$1.326	\$0.413	\$10.681
Loan Repayment (% of Revenues)	%00.06							
TOTAL COSTS		\$37.957	\$47.609	\$66.863	\$58.146	\$34.483	\$10.73	\$255.788
CASH FLOW ANALYSIS								
Nominal Dollars:								
Cash Flow - Year		\$1.015	\$24.855	\$38.167	\$56.552	\$46.274	\$2.436	\$169.298
Cumulative		\$1.015	\$25.869	\$64.036	\$120.589	\$166.862	\$169.298	\$169.298
Mid Annual Period Discount Factor								
Discount Factor:	25.00%	0.8944	0.7155	0.5724	0.4579	0.3664	0.2931	
Discounted Cash Flow		\$0.908	\$17.785	\$21.848	\$25.898	\$16.953	\$0.714	\$84.105
Cumulative	\$84.105	\$0.908	\$18.692	\$40.540	\$66.438	\$83.391	\$84.105	

Backbone Costs

Periods

VILLAGE	1	2	3	4	5	6	Totals
2-B		1.620					1.620
TC-A,TC-B	17.437						
3		22.250	22.250				44.500
4			20.750	20.750			41.500
5				15.250	15.250		30.500
6					6.800	6.800	13.600
Business Park	4.45	4					8.900
Totals	21.887	28.320	43.000	36.000	22.050	6.800	158.057

Potential Products												
PRODUCT TYPE	DEV. DHASE	Unit	Acre	Lot Size		Periods	ć	ď			,	
Monterey & Miraleste	TIVE	Lotals	Lotals	OI Density	LOI COST	-	7	2	4	2	9	Totals
Monterey	3	73.00		4.950	29 143		2 13					2.42
Monterey	5	135.00		4.950	27,000		i	\dagger	3.65			1 65
Miraleste	3	36.00		5,000	29.143		1.05		3			1.05
Miraleste	2	95.00		5,000	29,143				277			77.6
Monterey 8	& Miraleste Totals	339.00			Totals		3.18		6.41			0 50
							,		1			9.39
Montellano	4	00.69		7.560	36.500				2 52	1		2 63
Montellano	5	77.00		7.560	36.500				4 74	2 84		2.32
Pacifica Summit	4	67.00		6 300	35,000		-	235		7.01		2.01
Pacifica Summit	5	92.00		6,300	3.500			2.30		0.30		0.35
Montellano & Pacifica Summit Totals	ca Summit Totals	305.00			Totale	-		235	2 52	2 43		0.32
Small Lot SFD & Cantabria								200	7,7	2		0.00
Small Lot SFD	3	AR OU		5 775	33,000	+	000					0
Cantabria	7	130 00		21,2	23,000	+	7.30				Ì	2.90
Cantahria	- 4	87.00		000,0	33,000			4.29				4.29
	Section 7	00:10		000,0	33,000				79.7			2.87
	Small Lot SFD & Cantabria lotals	305.00			Totals		2.90	4.29	2.87			10.07
Birch Hills & Trinidad												
Birch Hills	3	98.00		12.9	30,000		2.94					2.94
Trinidad	3	98.00		7.4	30,000			2.94		-		2.94
Birch Hills	Birch Hills & Trinidad Totals	196.00			Totals		2.94	2.94			ĺ	5.88
Stone Ridge, Northwood & Carmel											Ì	
Stone Ridge	3	79.00		4.500	28.018			221				2 24
Northwood	3	71.00		3.825	28.018			1 99				1 00
Carmel	2	27.00		7.9	26,629						0.70	0.70
Stone Ridge, Northwood & Carmel Totals	1 & Carmel Totals	177.00			Totals			4 20			0 72	4 02
Vizcaya , Semi & Custom Est.											3	4:34
Vizcaya	4	31.00		11.200	35.000			1 00				100
Vizcaya	4	27.00		11.200	35,000			2	0.05			20.0
Semi Custom Est.	9	45.00		9.000	35,000					1 5R		200.0
Semi Custom Est.	9	17.00		9,000	35.000					2	0.60	000
Custom Est.	9	16.00		12,000	35,000					0.56		9.0
Vizcaya , Semi & Custom Est.	ustom Est. Totals	136.00			Totals			1 00	0 05	217	08.0	4.76
Town Centers									20.0	į	3)	ř
Village Center A	10	204.00		11.4	30 335	6.10				+	1	0 40
Village Center B	10	125.00		10.8	30 335	2	3 70			\dagger		0 0
	Town Centers Totals	329.00			Totals	£ 10	3 70					3.78
Business Park						3	;					9.30
Business Park	N/A		49.59				+					
	Business Park Totals		49.59		Totale		-		1			
UNIT GF	UNIT GRAND TOTALS	1787.00			Parind Grand Totals	£ 10	12 84	44 00	12 75	F 97	1	07 03
ACRE CE	DAND TOTAL C		40 50		and cours	2	16.01	4.00	14.73	3.27	1.31	33.19

Premise C
Properties Not Impacted by Additional
U.S. Army Corps of Engineers 404 Permit

ASSUMPTIONS MATRIX

Talega Valley Talega CFD 90-2

Parcel's Land-Use Designations ----

PRODUCT TYPE	VILLAGE	DEV. PHASE	RES.	NET	PRICE	PRICE	NET
	VILLAGE	PHASE	ACRES	ACRES	/ SQ. FT.	PER LOT	LOTS
Terra Linda]				
	3-G	3	8.6			170,000	38
Terra	Linda Totals		8.6				38
Carmel							
	2-W		2.4		<u>_</u>	175,000	27
C	armel Totals		2.40				27
Town Centers							
Village Center A	TC-A	6	17.6			100,000	114
Village Center B	TC-B	6	12			100,000	114
Town Ce	enters Totals		29.6		Ť		228
Business Park							
Business Park				49.59	9.50		
Business	Park Totals			49.59			
	Grand Total		40.60	49.50			202

Grand Total 293 40.60 49.59

Gen Dev Costs (before finance costs)	70,225,847
Appreciation of Property Inflation Rates Annually Cost Increases	5.00%
Admin./ContingSales & Marketing Costs	0.50% 1.00%
Each time period = Annual	
CONCLUSIONS Present Value of the Property (millions)	\$24.526

**************************************			,	Annual						
Potential Products					LOTS / AC	OTS / ACRES ABSORBED	RBED			
PRODUCT		NET .	NET .			· PERIODS	1		TIND :	ACRE
IYPE	VILLAGE	LOIS	ACRES	-	2	3	4	5	TOTALS	TOTALS
Terra Linda										
	3-G	38.00			38.00				38.00	
Terra l	Terra Linda Totals	38.00			38.00				38.00	
Carmel										
	2-W	27.00				27.00			27.00	
, c	Carmel Totals	27.00				27.00			27.00	
Town Centers										
Village Center A	TC-A	114.00		114.00					114.00	
Village Center B	TC-B	114.00				114.00			114.00	
Town Ce	Town Centers Totals	228.00		114.00		114.00			228.00	
Business Park										
Business Park			49.59	16.00	20.00	13.59				49.59
Business	Business Park Totals		49.59	16.00	20.00	13.59				49.59
UNIT GRAND TOTALS	D TOTALS	293.00		114.00	38.00	141.00			293.00	
ACRE GRAND TOTALS	O TOTALS		49.59	16.00	20.00	13.59				49.59

GROSS REVENUES	MILLIONS										
Potential Products PRODUCT		PRICE	PRICE	NET				PERIODS			
TYPE	VILLAGE	PER LOT	/ SQ.FT.	LOTS	ACRES	1	2	က	4	2	TOTAL
Terra Linda											
	3-C	170,000		38			6.460				6.460
Terra	Terra Linda Totals			38			6.460				6.460
Carmel											
	2-W	175,000		27				4.725			4.725
)	Carmel Totals			27				4.725			4.725
Town Centers											
Village Center A	TC-A	100,000		114		11.400					11.400
Village Center B	TC-B	100,000		114				11.400			11.400
Town C	Town Centers Totals			228.00		11.400		11.400			22.800
Business Park											
Business Park			9.50		49.59	6.621	8.276	5.624			20.521
Busines	Business Park Totals				49.59	6.621	8.276	5.624			20.521
GRAND	GRAND TOTALS			293.00	49.59	18.021	14.736	21.749			54.506

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PROJECT REVENUES: Revenues Adjusted Revenues Price Inflation (Annually) Other Revenue - Marblehead Other Revenue - Marblehead PROJECTED REVENUES DIRECT COSTS: Direct Construction Costs (W/OUT Land): Total Backbone Cost Additional Costs Cost Inflation (Annually) 4.00%	\$18.021 \$: 5.00% \$.18.922 \$: 5.00% 6.910 25.8322 16 \$25.8322 16 \$3.420 \$: \$3.420 \$: 7.9100	\$14.736 \$16.247 16.2469 \$10.927 \$1.107	\$21.749 \$25.177 25.1770 \$7.760 \$7.760	5.880	5	TOTAL \$54 506
illy) VD 99-1 Solar (W/OUT Land): Sost	\$18.021 \$18.922 \$18.922 6.910 5.910 \$2.260 \$3.420	\$14.736 \$16.247 16.2469 16.2469 \$10.927 \$1.107	\$21.749 \$25.177 \$25.1770 25.1770 \$7.760 \$4.176	5.880	2	TOTAL
Illy) VD 99-1 olehead ES osts (W/OUT Land):	\$18.021 \$18.922 6.910 6.910 25.8322 25.8322 \$3.420 \$3.420	\$14.736 \$16.247 16.2469 \$10.927 \$1.107	\$21.749 \$25.177 25.1770 \$7.760 \$4.176	5.880		\$54 50B
99-1 head s (W/OUT Land): t	\$18.021 \$18.922 6.910 25.8322 25.8322 \$2.260 \$3.420	\$14.736 \$16.247 16.2469 16.2469 \$10.927 \$1.107	\$25.177 \$25.177 25.1770 \$7.760 \$4.176	5.880		454 50B
99-1 head s (W/OUT Land): t	\$18.922 6.910 25.8322 25.8322 \$2.260 \$3.420	\$16.247 16.2469 16.2469 \$10.927 \$1.107	\$25.177	5.880		401.000
99-1 lead s (W/OUT Land): t	\$25.8322 25.8322 \$2.260 \$3.420	16.2469 \$10.927 \$1.107	\$7.760 \$7.760 \$4.176	5.880		\$60.346
99-1 lead s (W/OUT Land): t	6.910 25.8322 25.8322 \$2.260 \$3.420	16.2469 \$10.927 \$1.107	\$7.760 \$7.760 \$4.176	5.880		
head s (W/OUT Land): t	\$25.8322 \$2.8322 \$3.420 \$3.420	16.2469 \$10.927 \$1.107	\$7.760	5.880		
s (W/OUT Land): t	\$25.8322 \$2.260 \$3.420 7.9100	16.2469 \$10.927 \$1.107	\$7.760	5.8800		
n Costs (W/OUT Land): ne Cost sts (Annually)	\$2.260	\$10.927	\$7.760			\$73.136
n Costs (W/OUT Land): ne Cost sts (Annually)	\$3.420	\$10.927	\$7.760			
	\$3.420	\$10.927	\$7.760			
	\$3.420	\$10.927	\$7.760			
	\$3.420	\$1.107	\$4.176			\$20.947
	7.9100					\$8.703
	7.9100					
Vista Hermosa Interchange			***			
Total Adjusted Direct Costs	\$14.134	\$13.016	\$13.426			\$40.576
INDIRECT COSTS						
CFD Tax & Ad Valorem Tax	\$0.352	\$0.108	\$0.053			\$0.513
1% Builder Ad Umbrella \$3.264	(\$1.079)	(\$0.882)	(\$1.302)			(\$3.264)
Admin./Conting.	\$0.095	\$0.081	\$0.126			\$0.302
Sale & Marketing 1.00%	\$0.189	\$0.162	\$0.252			\$0.603
Total Indirect Costs	(\$0.443)	(\$0.531)	(\$0.872)			(\$1.846)
TOTAL DIRECT & INDIRECT COSTS	\$13.690	\$12.485	\$12.555			\$38.730
Interest on Current Draw 8.00%	\$0.548	\$0.499	\$0.502			\$1.549
TOTAL COSTS	\$14.238	\$12.985	\$13.057			\$40.279
REVOLVING LOAN FUND						
Loan Draw on Direct Costs - Reimbursements	\$13.690	\$12.485	\$12.555			\$38.730
Loan Repayment	\$13.690	\$12.485	\$12.555			\$38.730
Loan Balance						
Tot Period Loan Interest	\$0.548	\$0.499	\$0.502			\$1.549
Loan Repayment (% of Revenues) 90.00%						
TOTAL COSTS	\$14.238	\$12.985	\$13.057			\$40.279
CASH FLOW ANALYSIS						
Nominal Dollars:						
Cash Flow - Year	\$11.594	\$3.262	\$12.120	\$5.880		\$32.857
Cumulative	\$11.594	\$14.857	\$26.977	\$32.857	\$32.857	\$32.857
od Discount Factor						
Discount Factor: 18.00%	0.9206	0.7801	0.6611	0.5603	0.4748	
Discounted Cash Flow	\$10.673	\$2.545	\$8.013	\$3.295		\$24.526

Backbone Costs

Periods

VILLAGE	1	2	3	4	5	Totals
3-G, 2-W		3,166,516				3,166,516.000
TC-A,TC-B		5,500,000	5,500,000			11,000,000.000
						-
Business Park	2,260,000.00	2,260,000	2,260,000			6,780,000.000
Totals	2,260,000.000	10,926,516.000	7,760,000.000			20,946,516.000

^{*}Includes 3-A, 3-B & School Site

BUILDER'S COSTS									
Potential Products									
PRODUCT	L	Unit	Acre	-		Periods	1	,	
Terra Linda	VILLAGE	lotais	lotais	Lot Size	Lot Cost	-	2	e	Totals
	3-6	38.00		5.000	29.143		1-1-1-1		77 7
	Terra Linda Totals	38.00			Totals		111		14
Carmel									
	2-W	27.00			28,000			0.76	0.76
	Carmel Totals	27.00			Totals			0.76	0.76
Town Centers									
Village Center A	TC-A	114.00			30.000	3.42			3.42
Village Center B	TC-B	114.00			30,000			3.42	3.42
To	Town Centers Totals	228.00			Totals	3.42		3.42	6.84
Business Park									
Business Park			49.59						
Bu	Business Park Totals		49.59		Totals				
UNIT	UNIT GRAND TOTALS	293.00		Period C	Period Grand Totals	3.42	1.11	4.18	8.70
ACRE	ACRE GRAND TOTALS		49.59						

APPRAISER'S QUALIFICATIONS (See Limited Appraisal Report)

APPENDIX B

MARKET ABSORPTION STUDY

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

PREPARED BY

EMPIRE ECONOMICS, LLC

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EMPIRE ECONOMICS, LLC

Economic-Real Estate Consultants

Joseph Thomas Janczyk, Ph.D. 35505 Camino Capistrano, Suite 200 Capistrano Beach, CA 92624

> Phone: (949) 661-7012 Fax: (949) 661-8763

October 10, 2001

Mr. David Doomey Assistant Superintendent, Facilities Planning Capistrano Unified School District 32972 Calle Perfecto San Juan Capistrano, CA 92675

Re: Market Absorption Study Addendum
Potential Economic Impacts of September 11, 2001
Capistrano Unified School District
Community Facilities District No.90-2 Talega

Dear David,

Pursuant to your request, Empire Economics has prepared an Addendum to the Market Absorption Study based upon a consideration of the events that occurred in NewYork City and Washington on September 11, 2001.

National Economic Conditions

The United States government is in a favorable position to utilize fiscal and monetary policy to stimulate the economy for the following reasons:

Fiscal Policy: The federal government can utilize fiscal policy to stimulate the economy, since the federal budget is generally balanced, and so it can accommodate some deficit spending.

Monetary Policy: The Federal Reserve Board can utilize monetary policy to stimulate the economy by lowering interest rates further, since the economy does not currently appear to be experiencing inflationary pressures.

Regional Economic Conditions

With respect to regional economic conditions for Orange County, as a whole, these are best gauged by utilizing employment data as well as construction activity data. However, due to time lags involved in reporting, the data for September is not expected to be available until mid-November.

Recent Sales Trends in CFD No.90-2

To obtain timely information on the sales trends in CFD No.90-2, Empire Economics contacted the sales representative of the currently/recently active residential projects. There are ten currently/recently active projects in CFD No.90-2. Four of these have recently closed their remaining units. Another two projects are sold out, with the homes in escrow waiting for the completion of construction. Three other projects still have additional units for sale and they reported that their recent levels of activity have remained at levels that are similar to late-August early-September. Furthermore, a new project in Talega had its Grand Opening Saturday and reserved/sold all the 15 available units that were released.

Additional projects in CFD No.90-2 with for-sale housing (except for the attached projects in the Towncenter) are not expected to enter the marketplace until late 2002, due to the time required to comply with various environmental regulations.

Closing Remarks

Therefore, based upon the appropriate use of fiscal and monetary policy as well as the limited information on recent/current market conditions, it is the opinion of Empire Economics that the absorption schedules set-forth in the Market Absorption Study for CFD No.90-2 dated August 2001 are still reasonable.

Qualifications

The above remarks deal with the incidents that occurred on September 11, 2001, based upon the economic policies that can be implemented and the limited information that is presently available. Consequently, the opinion set-forth above could change as additional information becomes available or if further terrorist events should occur.

If you have any additional comments or considerations, contact me as I would be pleased to respond to them.

Sincerely

Joseph Thomas Janczyk, Ph.D.

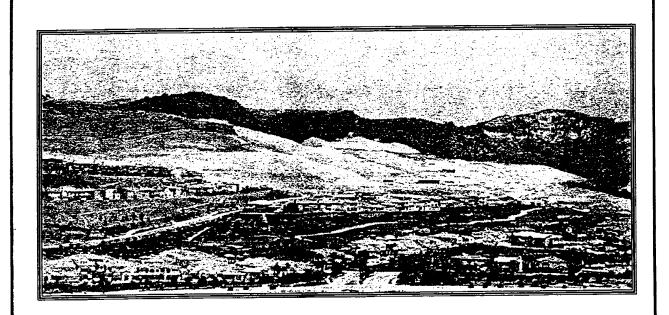
conomic Consultant

JTJ:rm

MARKET ABSORPTION STUDY SUMMARY AND CONCLUSIONS

COMMUNITY FACILITIES DISTRICT CFD NO. 90-2

CAPISTRANO UNIFIED SCHOOL DISTRICT ORANGE COUNTY, CALIFORNIA



CURRENT DEVELOPMENT IN A PORTION OF TALEGA

EMPIRE ECONOMICS, LLC

REVISED STUDY: AUGUST 1, 2001 * ORIGINAL STUDY: JULY 2001 *

(REVISIONS INCLUDE TOTAL NUMBER OF UNITS, REDUCED BY 2, AND THE NUMBER OF ESCROW CLOSINGS, HIGHER BY 13)

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INTRODUCTION TO THE BOND FINANCING PROGRAM

The Planned Community of Talega, consisting of some 3,510 acres, is being developed by Talega Associates, LLC, a consortium of developers/builders including Standard Pacific of Orange County, Inc., Catellus Residential Group, Inc., and JKS Holding, LLC. Talega is located in the City of San Clemente as well as the County of Orange, approximately one mile to the east of Route 5, with Pico Avenue near its southerly boundary. Talega has received planning approvals for up to 4,965 residential units, including single-family detached homes, condominiums, townhomes, and apartments. Presently, Talega Associates, LLC's current development strategy is for the development of some 3,741 units; this is less than the number of entitlements, and so it is within the planning approval parameters. Additionally, there are approximately 66.9 net acres for a Business Park which is expected to be developed with business projects as well as another 8.9 net acres for commercial-retail centers. Furthermore, there are 2,025 acres of permanent open space, an eighteen hole championship golf course, and 74 acres of community parks.

Talega Associates, LLC, has been forming various Community Facilities Districts (CFDs) for the Planned Community of Talega as a means of funding the backbone and other related public infrastructure that is required to support the development of its residential and business-commercial products. First, a CFD was formed with the Santa Margarita Water District (SMWD), and its purpose was to fund various water facilities; the amount of the Bonds issued in 1999 amounted to some \$79 million; some of these bonds are still in escrow. Secondly, a CFD was previously formed for Talega by the Capistrano Unified School District (CUSD), CFD No.90-2, and its purpose is to fund various school facilities; the maximum bond amount is not to exceed \$50 million.

The purpose of the Market Absorption Study for Talega for the CUSD financing is to provide an estimate of the probable absorption schedules for the forthcoming residential and business-commercial properties. Specifically, from the viewpoint of prospective Bond Purchasers, the particular components of the infrastructure should be time-phased and location-phased in a manner that approximately coincides with the expected marketability/absorption of the projects in Talega. Otherwise, to the extent that the infrastructure is not appropriately phased, then the following types of market inefficiencies may occur:

On the one hand, if certain projects do not have the infrastructure that is required to support their development in a timely manner, then they would not be able to respond to the demand in the marketplace, resulting in a <u>market shortage</u>.

On the other hand, if too much infrastructure is built, then projects for which there is not presently a market demand would incur high carrying costs due to the <u>market surplus</u>, and this could adversely impact their financial feasibility.

Thus, the Market Absorption Study formulates guidelines on the appropriate or optimal timephasing and location-phasing of the infrastructure for the properties located in the CUSD Talega, as a means of providing the bond purchasers with a reasonable amount of security from a market absorption perspective.

CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR CFD NO.90-2 (TALEGA)

The Planned Community of Talega has received planning approvals/entitlements from the County of Orange for up to 4,965 housing units, and so this represents the maximum number of units that may be developed. Based upon Talega Associates, LLC, the current development strategy for Talega, however, is expected to be for only some 3,741 housing units, some 1,224 fewer than the maximum amount allowed. Since Empire Economics regards Talega Associates, LLC, development strategy for Talega as a representation of the most probable product mix, it is utilized in the Market Absorption Study. Nevertheless, it is worthwhile to note that Talega Associates, LLC, may revise its development strategy for Talega, and so the number of units actually developed may vary from the 3,741 units.

CFD No.90-2 (Talega) has an exemption from Special Taxes for some 66 acres of housing oriented towards seniors. The current development plan includes 283 homes on 49.8 acres for age-restricted housing (households with at least one member 55 years of age or more), and this is in Village II Area 2C. Although there are currently no other planning areas that have senior housing, there are still another 16 acres that are exempt. To maintain a conservative posture with regards to Market Absorption, Appraisal and Special Tax Revenues, the assumption is made herein that another 16 acres will be developed for senior housing. Based upon representations from Talega Associates, LLC, the most probable planning area for additional age-restricted housing is Village VI Planning Area 6C with 14.9 acres and 43 units as well as a portion of 6E with 1.1 acres and 3 units. Accordingly, these planning areas are treated as property that is exempt from CFD No.90-2. Therefore, since the CUSD CFD No.90-2 will not levy a Special Tax on housing units designated for seniors, the 341 units that are expected to be developed for seniors are excluded from the analysis. Consequently, CFD No.90-2 is expected to have 3,412 housing units.

Additionally, planning approvals were also received for approximately 66.9 net acres for a Business Park which includes various types of business development and 8.9 net acres for Retail Centers for commercial retail/office projects. With regards to the Business Park property, some 4.7 acres is in the process of being rezoned for an apartment project with about 100 units; however, since the current land use is for business, it is treated as such herein.

With respect to the composition of the 3,412 housing units in the CUSD CFD No.90-2 (excludes the 341 age-restricted units) by product type, location, and various environmental approvals, the characteristics are as follows:

> The composition of housing units by product type categories, average prices, number of units and market shares is as follows:

Apartments:

438 units, 12.8%

Village Center:

Priced at some \$226,500: 329 units, 9.6%

Attached:

Priced at \$252,999: 203 units, 5.9% Priced at \$347,500: 113 units, 3.3%

Detached:

Priced at some \$355,240: 421 units, 12.3% Priced at some \$441,997: 841 units, 24.6% Priced at some \$550,000: 215 units, 6.3%

Priced at some \$530,000: 213 units, 6.3% Priced at some \$652,500: 702 units, 20.6%

Luxury:

Prices at some \$1,124,950: 150 units, 4.4%

> The geographical location of the units, within the City of San Clemente or in the Orange County unincorporated area is as follows:

County of Orange:

1,403 units, 41.1%

City of San Clemente:

2,009 units, 58.9%

- ➤ Units within City that have Final RDEB Approvals: 679 units
- > For units in San Clemente, another 1,330 RDEB Allocations

For additional information on the characteristics of the product mix for Talega, please refer to the following table and graph.

EXPECTED PRODUCT MIX FOR CFD NO.90-2 (TALEGA)

(EXCLUDING AGE-RESTRICTED UNITS) AUGUST 1, 2001 SUBJECT TO REVISION

80-2 Seniors Removed - 295 8 0 0 438 329 8 0 0 438 329 9 0.0% 12 6% 9 6% 9 0 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0 10 0 0 0	Aparlments Village	Attached			Detached			Totals	sls	Retail/Office	Bus	Business
Restricted State	Center	-	\$300,000	\$400,000	\$500,000	\$600,000	Above	Annually	Cumul	Annually Cumuł.	Annually	Cumul.
Nu/A Nu/A	\$300,000	200,000	\$399,999	\$499,999	\$599,999	\$799,999	\$800,000					
Nu/A Ni/A Ni/A Ni/A Ni/A Ni/A Ni/A Ni/A Ni										8.9	6.99	
0 438 329 0,0% 12,8% 96% 0,0% 0,0% 0,0% 0 0 0 0 0 0 0 119 0 0 0 119 0 0 0 119 0 0 0 119 0 0 0 119 1,280 0,1280 1,428 2,400 1,280 1,428 2,400 1,280 1,428 2,400 1,280 1,438 2,400 1,280 1,438							Removed 46					
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NJA NJA NJA NJA NJA NJA NJA NJA NJA NJA	329 203	113	421	22	215	702	150		3,412			
0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	96% 59%	33%	12.3%	24.6%	6.3%	20.6%	4.4%		46			
NIA NIA NIA NIA NIA NIA 0 210 0 0 0 2210 0 0 0 0 119 0 0 0 1159 0 0 0 11426 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425 2400 1,250 1,425									3,458			
NIA NIA									295			
0	N/A Trindad	ad Carmel	Solona	Terra Linda	San Rafael	Pacificia/Sum.	Vizcaya		3,753			
1			Farroton Ridge	Monterey	Pacificia							
0				Seaside								
0												
1y - Secured 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	16	89	120	275	115	0	13		682			
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Marcel	0 105	113	252	250	0	231	14	41.1%	1,403			
119 119	329 98	0	169	591	215	425	182	58.9%	2,009			
119 119	210 0	C	0	288	133	48	0		679			
80971 \$1230 \$126.500 \$1.250 \$1.250 \$1.425 \$1.250 \$1.250 \$1.255 \$1.250 \$1.255		9	169	303	82	377	182		1,330			
8) \$10,000 \$150,000 \$226,500 \$150,000 \$150,000 \$120,000 \$											+	
(Price/Area) \$150,000 \$226,500 \$276,500 \$10,000 \$10,000 \$1		+										
(Price/Area) 2,400 1,250 1,425 1,250 1,425 2,400 1,250 1,250 1,425 2,000	\$226,500	<u>^</u>	\$355,240	7441.99	000'0664	\$652,500	008,421,14					
(Price/Area)	+	+	2,005	2,708	3,200	3,001	4,990					
\$0.971 \$0.971 \$1.214 \$1,384 audit-Annually \$2,331 \$1,214 \$1,384	\$159 \$166	861 \$158	\$177	\$163	\$11.2	\$179	\$225					
20 Districts \$1,214 \$1,384			-									
lly \$2,331 \$1,214 \$1,384												
Valley Control of the	-	St 479 S7 134	51.947	\$2,630	\$3,108	\$3,546	\$4,851					
	-	-	0 888	. 2000	0.67%	****	0.43%					
	\$190	#100 MDC0	R CC:O	*600	K 100	5	200					
		-										

Det: \$800,000+ Det: \$300- Det: \$400- Det: \$500- Det: \$600- 400,000 500,000 600,000 800,000 800,000 EXPECTED PRODUCT MIX FOR CFD NO. 90-2 (TALEGA) (EXCLUDING AGE-RESTRICTED UNITS) **Future Units** Attached: \$300,000+ Attached: \$200-300,000 Closed Escrows Village Center # Restricted Apartments 400 100 0 700 900 500 300 200 800 900 NUMBER OF HOUSING UNITS

Page 5

DEVELOPMENT TRENDS/PATTERNS IN THE CFD NO.90-2 (TALEGA) NEIGHBORHOOD

The southeasterly portion of Orange County (OC) has experienced a considerable amount of development activity during the past thirty years, as various Planned Communities (PC), Business Parks and Retail Centers have entered the marketplace in a systematic manner; the Planned Community of Talega represents a sequential extension in this development pattern.

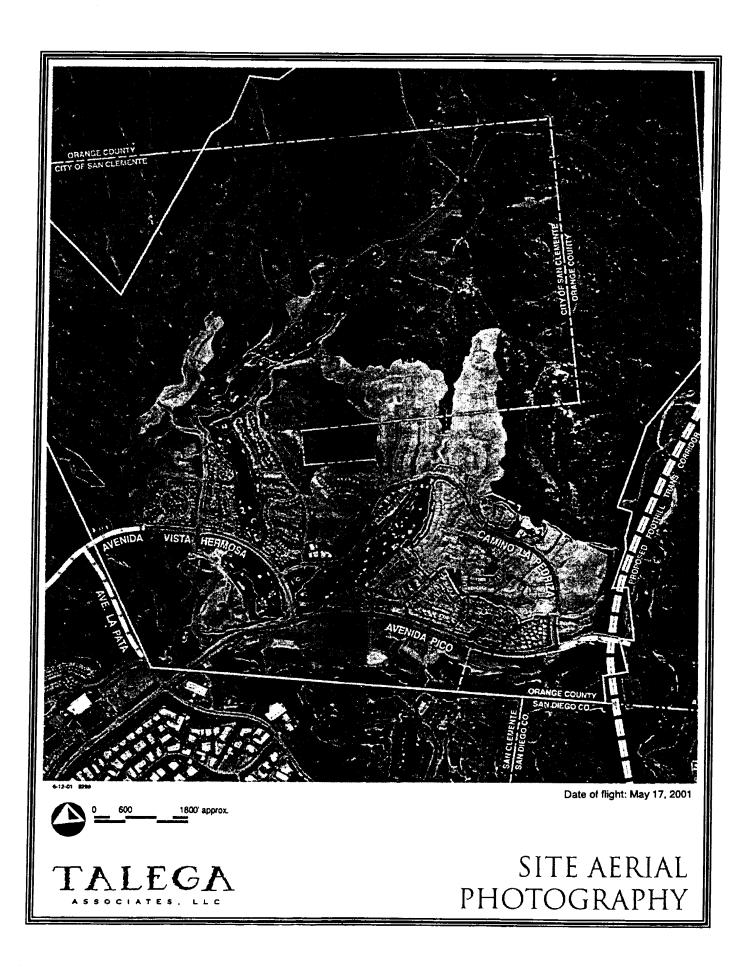
Specifically, the development patterns in the southeasterly portion of Orange County have been influenced by two key factors:

- First, the pattern represents a systematic extension from the urbanized areas of central OC into the rural areas of southern OC as well as the cities located in the far southern portion of Orange County, such as San Clemente.
- Secondly, the PC in southern OC are accessed by Route 5, a major north-south freeway, as well as the recently completed northern portion of the Foothill Transportation Corridor (FTC), Route 241, a north-south toll road; additionally, the southern segment (south of Oso Parkway) is expected to be completed during the next five+ years.
- > Third, access to Talega is approximately a mile to the east of Route 5, by way of Pico Avenue; additionally, the future extension of the FTC may be at its easterly boundary, depending upon the FTC alignment that is ultimately chosen.

Accordingly, the types of development that have occurred or are expected to occur in the vicinity of Talega are as follows:

- Some 14 miles to the northeast is Rancho Santa Margarita, a conglomeration of various Planned Communities, Business Parks and Retail Centers, which, together contains 14,800 housing units, 400+ business-office acres and 100+ commercial-retail acres. Most of this property has already been developed/marketed to final-users, and so these Planned Communities, Business Parks and Retail Centers are approaching their build-outs.
- Approximately 12 miles to the northeast is the Planned Community of Coto de Caza, which features luxury housing in a golf course setting; it has already had some 3,446 of its 4,121 homes built and sold
- Some 10 miles to the north is Mission Viejo, a Planned Community with some 30,000 homes that entered the marketplace some 30 years ago, and it will be built-out upon the completion/marketing of its currently active residential projects/apartment complexes.
- > About 6 miles to the north is the Planned Community of Ladera Ranch which has entitlements for some 8,100 housing units, and entered the marketplace in mid-1999, and, since then, has closed escrows on some 1,091 homes.
- Finally, some 2 miles to the north is the Planned Community of Forster Ranch which has some 1,000 housing units for future development, and these entered the marketplace with models in mid-2000, and, since then, have closed escrows on some 197 homes.
- Finally, to the north-east are various Planned Communities that are proposed for future development; however, since they have not yet obtained their planning approvals, these are not expected to enter the marketplace for five+ years.
- Therefore, within the context of the development in southeasterly Orange County, Talega represents a Planned Community that continues the development patterns.

For additional information, please refer to the aerial photo on the next page.



ROLE OF MARKET STUDY IN THE BOND FINANCING

The Market Absorption Study for the CUSD CFD No.90-2 (Talega) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the District's Products:

The Market Absorption Study provides an estimate of the absorption of the current active as well as the forthcoming residential, business and commercial-retail in CFD No.90-2 (Talega), through a consideration of the expected demand for each of the products in the Market Area, as a whole, along with the competitiveness or capture rates for each of the District's projects in the marketplace, in particular.

Special Tax Payment Analysis:

> Special Tax Revenues by Product Types:

The combined Ad Valorem and Special Tax burden for the residential products in the District is expected to amount to less than two-percent of their respective market values. Accordingly, a critical component of this analysis are the expected prices/values for the various types of products in CFD No.90-2 (Talega). Consequently, Empire Economics will perform a comprehensive analysis of the comparable projects in the marketplace, in order to evaluate the prices for the active as well as the forthcoming products in the District.

> Aggregate Amount of Special Tax Revenue and Debt Service:

The amount of Special Tax Revenue generated by the properties in the District is then derived by using the aggregate number of residential units as well as the business and commercial-retail acres, along with their Special Taxes per unit/acre. These Special Tax Revenues determine the amount of the Annual Debt Service Payments that the CFD can accommodate, and hence the size of the Bond Issue that can be supported by the District.

> Relative Shares of Special Tax Payments:

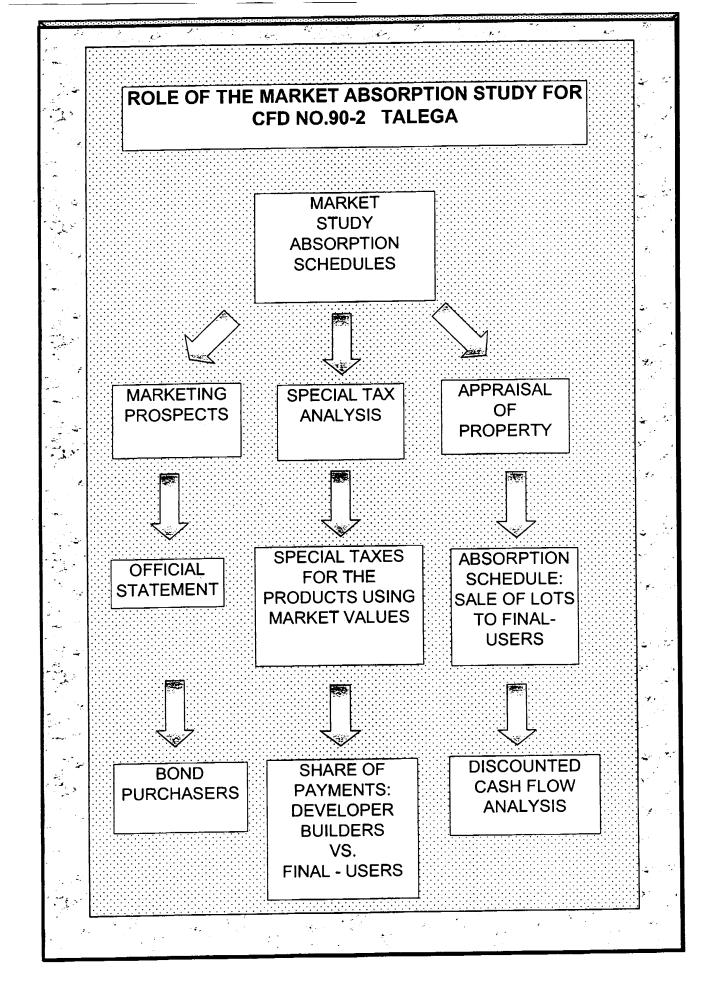
The Special Tax Payments required to meet the Annual Debt Service are paid by the developer or builders (for undeveloped property or unsold homes) and also by the final users/homeowners (on the fully improved/occupied properties); the proportionate shares of their payments vary on a year/year basis. The absorption schedules can be utilized to estimate the amount of the Special Tax Payments that are likely to be paid by the developer/builders: the longer the absorption time period, the greater their share of the Special Tax Payments.

Appraised Value - Discounted Cash-Flow:

The Appraiser considers the absorption schedules as part of the Discounted Cash Flow Analysis which provides an estimate of the present value of the property to be developed in CFD No.90-2 (Talega); this reflects the security/collateral underlying the Bond Issue. The absorption schedules represent a critical component of the Appraisal: the longer the absorption time, the less the Discounted Value, as compared to the undiscounted Retail Value.

Structuring the Bond Issue:

The Issuing Agency, Community Facilities District No.90-2 of the Capistrano Unified School District, along with the Underwriter can then utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue for CFD No.90-2.



FUNDAMENTAL CONDITIONS UNDERLYING THE ECONOMIC FORECASTS

The macroeconomic section of the Market Absorption Study performs a comprehensive analysis of the factors underlying Empire Economics' economic forecasts for the United States (US) and California (CA) as well as the Southern California (SC) Market Region and the CFD No.90-2 Market Area (MA).

Based upon Empire Economics' experience in conducting 250+ Market Studies, these macroeconomic factors are regarded as being the most significant determinants of the actual performance of Planned Communities and Business Parks in the marketplace, and, as such, they represent a critical component of the Market Absorption Study.

Recent Economic Trends and Patterns

The US economy is currently in its longest post WW II expansion; during the past 38 quarters (9.5 years) the growth in real Gross Domestic Product (GDP) amounted to some 41%. By comparison, the other major Post WW II expansions were as follows: The Kennedy Johnson expansion had a span of 35 quarters during which real GDP grew by a total of 53%. The Regan expansion had a span of 31 quarters over which real GDP grew by 37%. However, the current expansion may falter during 2001 due to the following factors: scarcity of available labor due to low unemployment rates, diminishing levels of corporate profits, and lower stock market values which adversely impact both business (difficulty of raising capital) and consumers (purchases of durable goods).

Most Probable Economic Scenario: US and CA and Southern California

The Most Probable Economic Scenario is based upon the Federal Reserve Board (FRB) controlling interest rates in such a manner to countervail the adverse factors mentioned, thereby reducing the risk of a the economy falling into a recession. According to this scenario, the US Gross Domestic Product (GDP) growth is expected to decline to a rate of 1.1% in 2001, and then recover to some 2.2% in 2002, when the full impacts of the rate decreases become effective. The rate of employment growth is expected to decline from 2.1% in 2000 to 0.7% in 2001 and then 0.6% in 2002, due to its lagged effects.

California is expected to perform at a stronger level than the US economy, since it experienced a deeper recession in the early 1990s. Accordingly, CA's Real GDP, which rose by 3.0% in 2000, is expected to increase by 1.9% in 2001 and 1.2% in 2002. While CA's employment, which increased to 3.6% in 2000, is expected to increase by 1.9% in 2001 and 1.8% in 2002.

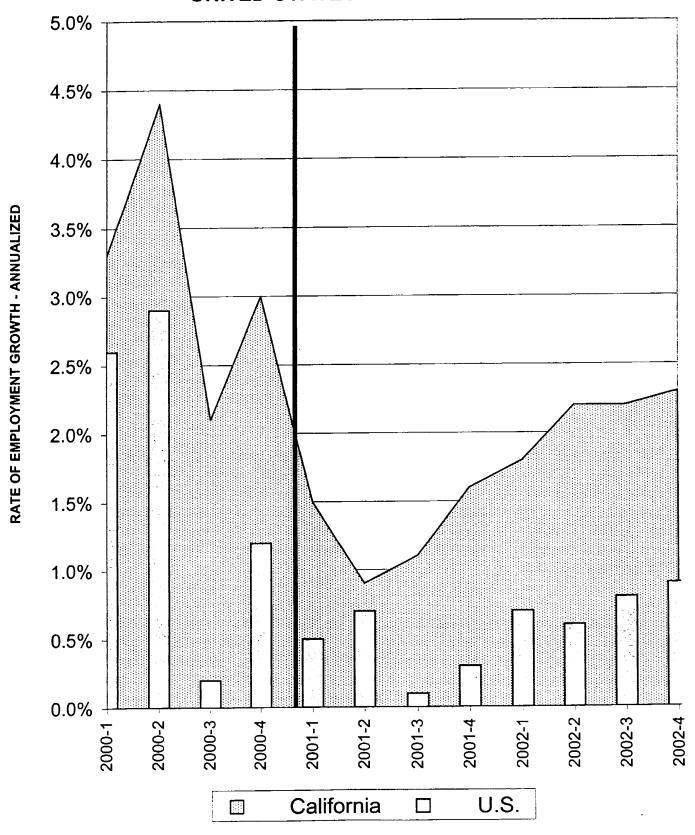
Therefore a comparison of the rates of GDP and employment growth reveal that CA is expected to out perform the US during 2001 and 2002. This represents a continuation of a pattern that began in 1996, when CA emerged from a major recession in the early 1990s.

The Most Probable Economic Scenario for Southern California is that it is expected to outperform California. This can be attributed to SC being less reliant on the "new economy" jobs than the San Francisco Area, and so the potential impacts of the recent stock market declines are not expected to have as much of an impact.

Implications of the Expected vs. Actual Economic Scenario

This Study is based upon the Most Probable Economic Scenario, since this has the highest probability of occurring, and so the estimated absorption schedules for the CFD have a usability span of some six months. If, over time, the actual economic conditions tend to outperform those of the Most Probable Scenario, then no revisions to the absorption schedules are deemed to be necessary, since the CFD's absorption prospects would actually become more favorable. However, if, over time, the actual economic conditions tend to under perform the Most Probable Scenario, then revisions to the Study would be necessary, since the absorption schedules represented in the original Study would probably be overstated.

RECENT/FUTURE RATES OF EMPLOYMENT GROWTH UNITED STATES AND CALIFORNIA



Page 11

POTENTIAL IMPACTS OF THE CALIFORNIA ENERGY CRISIS ON THE CALIFORNIA ECONOMY

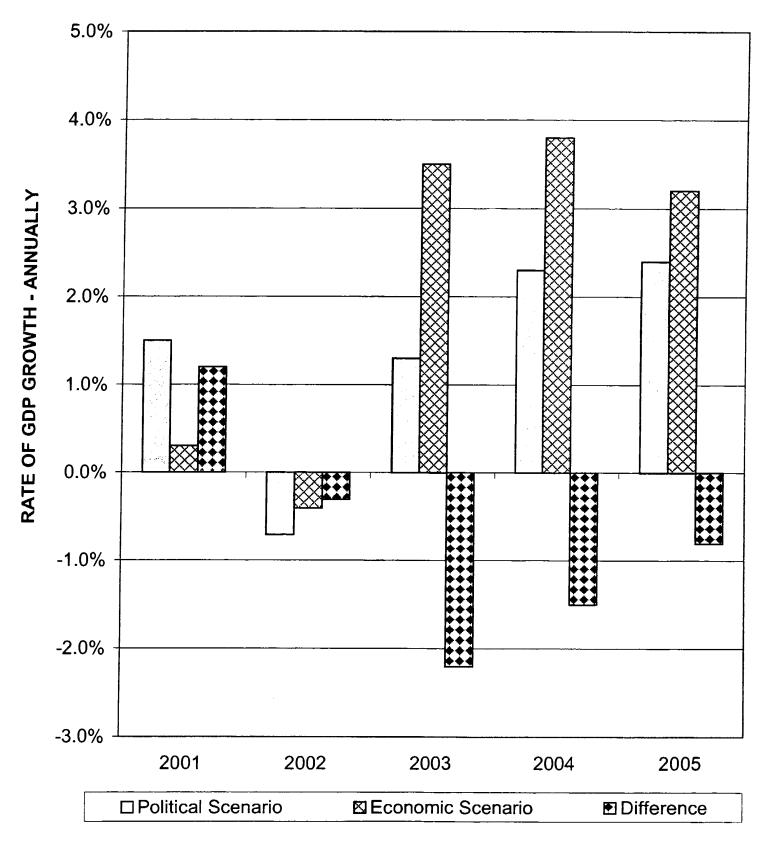
During January through March 2001, rolling blackouts and significantly higher energy bills resulted in the emergence of an energy crisis for California. Since then, concerns have arisen regarding the potential economic impacts that an energy crisis may have upon the California economy during the foreseeable future. Accordingly, the purpose of this section is to provide an overview of the potential scenarios that may be utilized to resolve the energy crisis, along with their estimated economic impacts.

The various solutions that have been proposed for California can be generally classified into two distinct categories: "Political/State Driven" and "Economic/Market Driven"; accordingly, their characteristics are a follows:

- The Political/State Driven scenario focuses upon the state controlling energy prices so that they remain relatively low to consumers and businesses, at least in the short-run. Additionally, the state encourages consumers and businesses to reduce their demand for energy; however, this is based upon voluntary efforts (as compared to higher prices). However, since demand may still exceed supply (at the relatively low price levels), the state absorbs the higher costs (wholesale vs retail), there are frequent black-outs, and businesses face uncertainty regarding the availability of energy over time. Finally, these conditions may persist in the energy markets for some time, since the lower prices do not provide an incentive for energy firms to increase the future supply of energy.
- The Economic/Market Driven scenario focuses instead upon higher energy prices in the marketplace for consumers and businesses, at least in the short-run. The higher prices result in a reduction in demand from consumers and businesses. The higher prices result in lower wholesale costs (due to a reduction in demand), infrequent blackouts and minimal uncertainty regarding the availability of energy for businesses over time. Finally, the higher energy prices provide energy firms with an incentive to increase the supply of energy, and this eventually results in lower prices for business and consumers.

The two scenarios have different economic impacts on the California economy during the 2001-2005 time period, with the Political/State Driven scenario resulting in more favorable growth rates in the short run, due to relatively low energy costs, but lower growth rates in the long run, due to uncertainties in the supply of energy. While the Economic/Market Driven scenario results in more favorable growth rates in the long run, due to a grater supply of energy at lower prices, but slower growth in the short run, due to higher energy prices. However, based upon the growth rates for the 2001-2005 time period, as a whole, the Economic/Market Driven scenario is much more favorable. Specifically, according to UCLA, the rates of GDP growth for California during 2001-2005 for the Political/State Driven scenario amount to 1.36% while for the Economic/Market Driven scenario they amount to 2.08%, a differential of 0.72% in favor of the Economic/Market Driven scenario.

POTENTIAL ECONOMIC IMPACTS OF THE CALIFORNIA ENERGY CRISIS ALTERNATIVE SOLUTION SCENARIOS



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RECENT ECONOMIC AND CONSTRUCTION ACTIVITY TRENDS/PATTERNS IN ORANGE COUNTY

The recent employment and construction activity trends for Orange County are now presented, in order to provide a background on the current economic and real estate conditions within the county, in particular.

The primary determinant underlying construction activity is employment growth, since this generates a demand for additional industrial and office buildings as well as new housing units and also commercial-retail centers. Accordingly, this is now discussed in order to provide a background for understanding the recent construction activity trends in Orange County.

- Porange County's employment growth was very strong during the 1984 to 1989 time period, with annual increases of some 45,817 jobs per year for growth rates of some 4.54% per year, on the average. However, an economic slowdown which started in 1989 eventually led to a full-fledged recession which lasted from 1990 to 1993, with job losses of some −12,025 per year. Although an economic recovery started in 1994, its growth was sluggish. Then, during the 1997-2000 time period, employment growth increased by some 50,500 per year for a growth rate of some 3.93% per year, on the average. However, the rate of employment growth moderated during 1999-2000 due to a scarcity of labor as reflected by the county's unemployment rate of only 2.7%.
- With respect to the construction of new housing units, Orange County experienced very high levels of activity during 1987-1990, when new housing units attained levels of more than 1,958 single-family and 2,785 multiple-family units/qtr. However, the economic slowdown and recession during 1991-1993 resulted in the levels declining to some 974 single-family and 598 multiple-family units per quarter. Since 1996, and continuing through 2001, the levels of new single-family units have increased to some 1,865 per quarter and so it has stabilized. While multiple-family units have attained levels of some 956 per quarter, however, this sector has not yet fully recovered.
- With respect to the construction of industrial, office and retail buildings, Orange County also experienced very high levels of activity during 1987-1990, when the valuations were typically some \$231 million per quarter. However, the economic slowdown and recession resulted in the valuations declining to below \$48 million per quarter during 1991-1993. Since 1996, and continuing through 2001, valuations have recovered to attain levels of some \$135 million per quarter.

Therefore, the recovery of Orange County's economy has resulted in strong levels of employment growth since 1997, and this has enabled the single-family, industrial, and retail sectors to establish their recoveries. But the lingering effects of high vacancy rates in the various real estate sectors, resulting from the very high levels of construction activity in the latter 1980s in conjunction with the decrease in demand in the early 1990s as a result of the economic recession, have resulted in a sluggish recovery for the multiple-family and commercial-office sectors. However, continued employment growth, along with recent declines in vacancy rates, should generate higher levels of construction activity in the multiple-family and commercial-office real estate markets during the foreseeable future.

COMPETITIVENESS OF CFD NO.90-2 (TALEGA) FROM A REGIONAL PERSPECTIVE

From a regional perspective, the competitiveness of CFD No.90-2 (Talega) is influenced by the development patterns for housing and employment within the Market Area, southern Orange County. Specifically, Business Parks generate industrial-office development while Planned Communities generate residential development which, in turn, generates a demand for Retail Centers; additionally, the flow of traffic between them is facilitated by the freeways and transportation corridors.

Expansion of Employment Centers and Business Parks

The currently established major employment centers are John Wayne Airport and the Irvine Spectrum (JWA-IS), and most of the employment growth has occurred within these centers. Furthermore, there has been some expansion from these into various Business Parks located in southern Orange County. Specifically, these Business Parks are generally situated along the existing freeways, Route 5 and 405, as well as the recently completed transportation corridors, Foothill/Eastern Transportation Corridor (F/ETC) and San Joaquin Hills Transportation Corridor (SJHTC).

- * The F/ETC facilitates the northerly-southerly flow of traffic easterly of Route 5; additionally, it has recently been directly linked to the 5/405 freeways near the intersection of the 5/405 freeways, also referred to as the El Toro Y.
- * The SJHTC provides a direct linkage between the JWA employment centers and Aliso Viejo as well as areas to the south; additionally, it is also directly linked to Interstate 405.

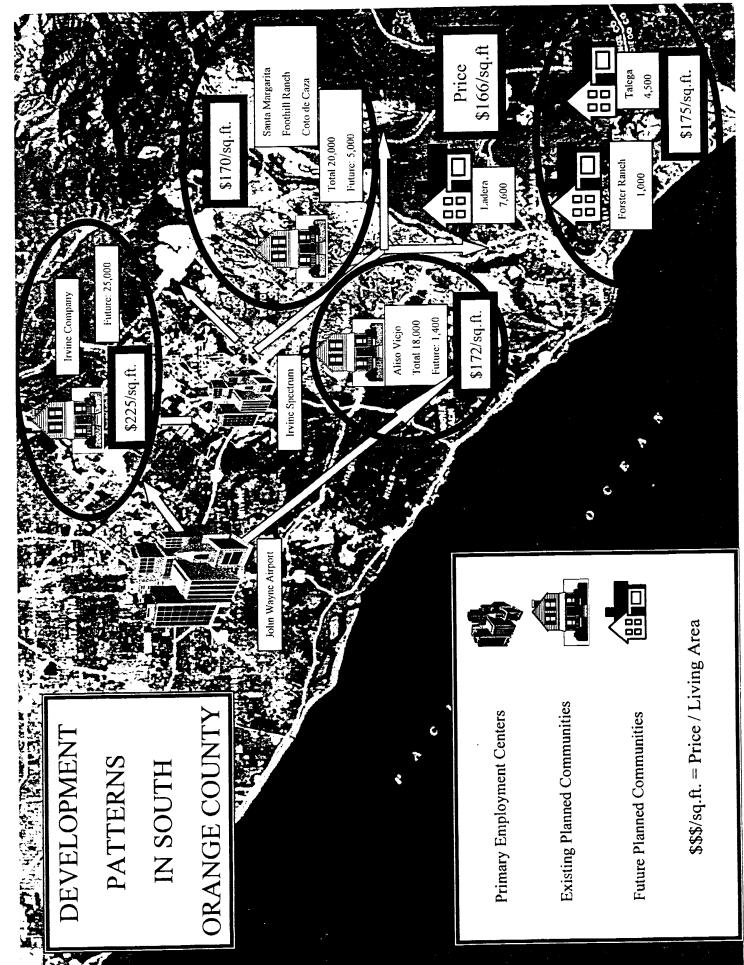
> Commuting Patterns: Employment Centers to Residential Areas

Many of the households employed in the JWA-IS area reside in southern Orange County, and they typically utilize the 405 and 5 freeways as well as the F/ETC and SJHTC for their commutes.

- * The F/ETC facilitates the commute between the JWA-IS and the Rancho Santa Margarita Area; additionally, it has recently been directly linked to the 5/405 freeways.
- * The commute between JWA and Aliso Viejo has been facilitated by the SJHTC since it is directly linked to the JWA employment centers.

Therefore, the recent expansions of the existing freeways, Route 5 and 405, and the transportation corridors, F/ETC and SJHTC, have dramatically enhanced the accessibility in southern Orange County, and so this will benefit CFD No.90-2 (Talega).

For an overview of the established employment centers, Business Parks, Planned Communities and also CFD No.90-2 (Talega), please refer to the following exhibit.



DEVELOPMENT POTENTIAL OF PLANNED COMMUNITIES IN THE CFD NO.90-2 MARKET AREA

The development potential of the currently/recently active and forthcoming Major Planned Communities (400+ housing units) in the CFD No.90-2 Market Area, southern Orange County, represents a substantial proportion of the supply of new housing that is expected to enter the marketplace during the foreseeable future. This is significant for the current and forthcoming projects in CFD No.90-2 (Talega), since it reflects the amount of competition that the District's projects will encounter from other competing Planned Communities in the Market Area.

Accordingly, Empire Economics compiled information on the currently/recently active and forthcoming Major Planned Communities (PC) in the CFD No.90-2 Market Area.

- With respect to the eleven Major Planned Communities that are currently/recently active, including CFD No.90-2 (Talega), they have a development potential for some 63,867 housing units. Thus far, some 50,580 units (79.2%) of these housing units have been built/occupied, and so there are another 13,287 units (20.8%) remaining for future development. During the 1997-1999 time period, these PC have experienced an absorption rate of some 4,500 housing units per year, on the average. However, during 2000, the rate of absorption declined to some 3,000 units. Since OC's employment growth and hence the demand for housing was strong during 2000, the lower rate of absorption can be attributed to a diminishing supply of product that is available. Consequently, the builders of residential projects, realizing that the various PC are approaching their build-out, will become more aggressive in raising housing prices.
- With regards to two forthcoming Major Planned Communities, Pacific Point, and Marblehead, they are expected to have a total of some 834 housing units among them. However, based upon their current development/planning approval status, these PC are not expected to have escrow closings until 2002+. Finally, it should be noted that although there is a substantial amount of property in the far southeastern portion of the county is it not considered in this analysis, since the development potential of this property has not yet been identified.

Therefore, as the various PC approach build-out, there is a reduction of the supply of residential products that are coming to the marketplace. During 2000, the rate of absorption declined to some 3,000 units, as compared to 4,500 units in the prior years. Furthermore, most of the remaining supply is concentrated in the PC of Talega and Ladera which are developing on a phase-phase basis. Consequently, if the current economic and financial market conditions continue to generate a strong demand for housing, then the residential market in south Orange County may encounter a significant supply shortage. Thus, the residential market conditions for the currently active and forthcoming PC, such as CFD No.90-2 (Talega), are expected to be favorable.

CURRENTLY ACTIVE AND FORTHCOMING PLANNED COMMUNITIES CFD NO.90-2 (TALEGA) MARKET AREA: SOUTH ORANGE COUNTY (EXCLUDING IRVINE COMPANY PROJECTS)

CURRENT DEVELOPMENT STATUS AND BUILD-OUT POTENTIAL

	T	Total	Escrows	Future
Codes	Planned Communities	Units	Closed	_
Codes	Planned Communities	1	i i	Development
		Planned/Built	June 2001	Units
		{Est.}	{Est.}	{Est.}
rrentl	y Active Planned Co	ommunities		
A	Aliso Viejo	18,500	17,501	999
В	Foothill Ranch	3,881	3,881	-
С	Portola Hills	1,595	1,595	-
D	Mission Viejo	5,940	5,483	457
E	Santa Margarita	14,432	14,337	95
F	Coto de Caza	4,121	3,446	675
G	Ladera	7,600	1,091	6,509
Н	Talega	3,800	669	3,131
I	Las Flores	2,000	2,000	_
J	Laing-Forster Ranch	1,050	197	853
K	San Joaquin Hills	948	380	568
	Sub-Total	63,867	50,580	13,287
	Share - Total	100.0%	79.2%	20.8%
hcoming	g/Proposed Planned			i i i i i i i i i i i i i i i i i i i
L	Pacific Point	400	-	400
М	Marblehead	434	-	434
	Sub-Total	834	-	834
	Share - Total	100.0%	0.0%	100.0%
	Grand Total	64,701	50,580	14,121
	Share - Total	100.0%	78.2%	21.8%

COMPETITIVENESS ANALYSIS OF PROJECTS IN THE CFD NO.90-2 (TALEGA) BY MARKET SEGMENTS

The competitiveness of the currently active projects in CFD No.90-2 (Talega) are now evaluated by comparing them with the currently active projects located within the Market Area. Specifically, the results of this analysis are utilized in several ways:

- > First, the prices will influence the absorption prospects for the forthcoming projects in CFD No.90-2 (Talega).
- > Secondly, the prices in the Special Tax analysis determines the amount of Special Tax revenues and hence the size of the Bond Issue that can be supported by CFD No.90-2 (Talega).

There are presently 51 active for-sale projects in the CFD No.90-2 Market Area, including eleven currently active projects in CFD No.90-2 (Talega). Furthermore, these have been partitioned into seven distinct market segments: two for attached products priced from \$200,0000-\$300,000+ and five for detached products priced, on the average, from \$300,000-\$800,000+; accordingly, each of these is now discussed.

	Number	Projects	Active Projects	Cor	nparison of Value R	atios		
Market Segments	Active	Talega	Prices	Areas	Market	Talega	Differ.	Compare
		Only						
Attached: Below\$275,000	4	1	\$249,868	1,410	\$178	\$166	-6.8%	Below
Attached: Above \$275,000	3	1	\$306,160	1,840	\$167	\$158	-5.6%	Below
Detached: \$300-400,000	13	2	\$349,163	1,991	\$178	\$177	-0.3%	Similar
Detached: \$400-500,000	8	2	\$445,930	2,715	\$165	\$168	1.8%	Similar
Detached: \$500-600,000	11	2	\$540,084	3,261	\$167	\$178	6.5%	Above
Detached: \$800-800,000	8	2	\$687,436	3,965	\$174	\$179	3.0%	Similar
Detached: \$800,000+	4	1	\$1,048,359	5,088	\$206	\$225	9.5%	Above
Grand Total	51	11	\$503,105	2,877	\$175	\$181	3.8%	Similar

The market surveys of the comparable projects as well as the pricing information compiled from the currently active projects in CFD No.90-2 (Talega) for each of the relevant market segments are as follows:

Market Segment: Attached: Below \$250,000

Within CFD No.90-2 (Talega), there is 1 project in this market segment, while in the Market Area, there are currently a total of 4 projects in this segment, including the one in Talega. Comparing the value ratios of the active projects in the Market Area, \$178 with those in Talega, \$166 reveals that the value ratio for Talega is lower (-6.8%).

Market Segment: Attached: Above \$250,000

Within CFD No.90-2 (Talega), there is 1 project in this market segment, while in the Market Area, there are currently a total of 3 projects in this segment, including the one in Talega. Comparing the value ratios of the active projects in the Market Area, \$167, with those in Talega, \$158, reveals that the value ratio for Talega is lower (-5.6%).

Market Segments: Detached: \$300,000-\$800,000+

Accordingly, a similar analysis was conducted for the forthcoming product types in the five segments of detached housing products, and the results are as follows:

- For homes in the \$300-400,000 market segment, there are currently 2 active projects in CFD No.90-2 (Talega), while in the Market Area, there are currently a total of 13 projects in this segment, including the 2 projects in Talega. Comparing the value ratios of the active projects in the Market Area, \$178, with Talega's value ratio, \$177, reveals that the Talega's value ratio is similar.
- For homes in the \$400-500,000 market segment, there are currently 2 active projects in CFD No.90-2 (Talega), while in the Market Area, there are currently a total of 8 projects in this segment, including the 2 projects in Talega. Comparing the value ratios of the active projects in the Market Area, \$165, with Talega's value ratio, \$166, reveals that the Talega's value ratios are somewhat, though not significantly, higher (+1.8%).
- For homes in the \$500-600,000 market segment, there are currently 2 active project in CFD No.90-2 (Talega), while in the Market Area, there are currently a total of 11 projects in this segment, including the 2 projects in Talega. Comparing the value ratios of the active projects in the Market Area, \$167, with Talega's value ratio, \$178, reveals that the Talega's value ratios are somewhat higher (6.5%).
- For homes in the \$600-800,000 market segment, there are currently 2 active projects in CFD No.90-2 (Talega), while in the Market Area, there are currently a total of 8 projects in this segment, including the 2 projects in Talega. Comparing the value ratios of the active projects in the Market Area, \$174, with Talega's value ratio, \$179, reveals that the Talega's value ratios are somewhat higher, though not significantly, (3.0%).
- For homes in the \$800,000+ market segment, there is currently 1 active project in CFD No.90-2 (Talega), while in the Market Area, there are currently a total of 4 projects in this segment, including the project in Talega. Comparing the value ratios of the active projects in the Market Area, \$206, with Talega's value ratio, \$225, reveals that the Talega's value ratios are higher (+9.5%).

Overall Comparison: All Market Segments

For all of the products types in CFD No.90-2 (Talega), as a whole, the value ratios amount to \$181, and this is similar to the value ratios of the currently active projects in the Market Area, \$175. Furthermore, although there are some variations between the value ratios for the products by the various market segments, these are not regarded as being significant. Therefore, the currently active projects in CFD No.90-2 (Talega) are regarded as being competitively priced in the marketplace.

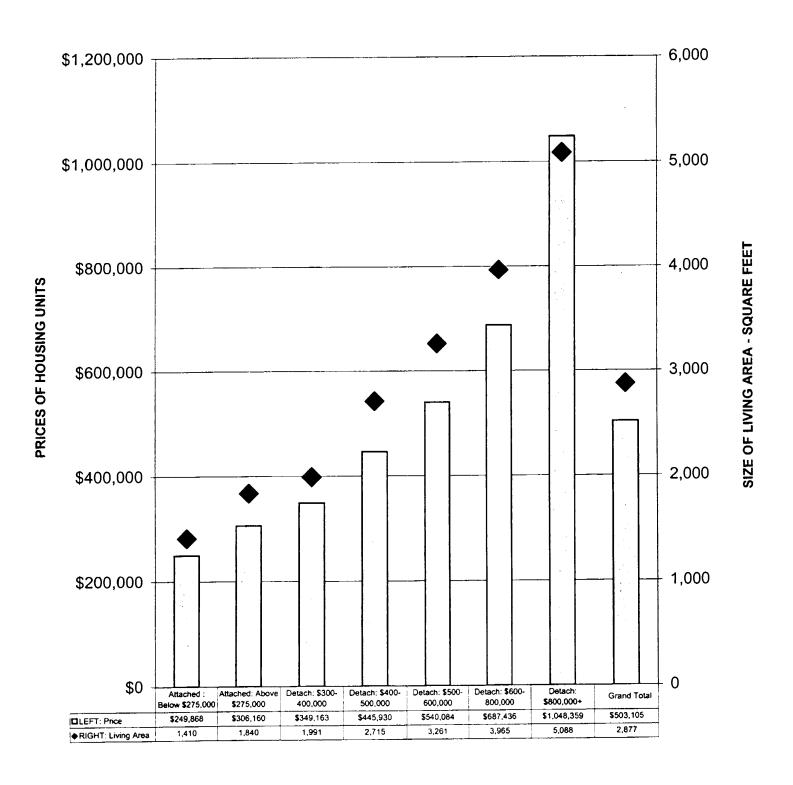
For additional information on the projects in the Market Area by the various market segments, please refer to the following table and graphs.

Market Segments	Plenned Community	Project	Project	Project Size	and Sales		Housing Prices		•			-		
			Active (Yes=1)	Total Lessed/	Lessed/ Closed	Lower	Average	Upper	Lower	Average	Upper	Retto	Amount Ratio	Ratio
Apartment	Mission Viero	Mark-Taulor												2
1	Alission Virgo	The Oasts	ADALIMENT	416	1									
1	Mission Viejo	The Park	Apartment	380	180									
Apartment	Ladera Ranch	Laurel Canyon Apts.	Apartment	201										
	4													
	Talone (CED No DO 2)	Chambray	Attached	153	21	\$216,990	\$232,490	\$247,990	1,210	1,376	1,541	\$169	\$2.092	%-06-0
	Aliso Vieio	Candon Back	Accached	105	2 3	\$232,000	\$252,000	\$272,000	1, 367	1,523	1,678	\$166	\$1,764	0.70%
Attached: \$200-275,000	Ladera Ranch	Three Vines	Arrached) S		\$236,990	\$256, 490	\$275,990	1,197	3,379	1,560	\$186	\$2,052	0.80%
				2		\$755,990	\$258,490	\$290,990	1,178	1,364	1,550	\$190	\$2,326	0.90%
Altached: \$275-350,000+	Ladera Ranch	Sycamore Grove	Attached	103	9	4363 680	207 0000							
Altached: \$275-350,000+	Ladera Ranch	Alden House	Attached	98	;	355, 990	\$20, 100	\$305,990	1,349	1, 175	1,800	\$178	\$2,515	0.90%
Attached: \$275-350,000+	Talega (CFD No.90-2)	Carmel	Attached	986	89	6345 000	1232	\$116,990	1,557	1,748	1,939	\$167	\$2,623	0.90%
						200,000	000'/400	000,0564	2,016	2,197	2, 380	\$158	\$2,433	0.70%
Detach; \$300-400,000	Ladera Ranch	Westcott	Detached	101	22	\$291 490	6108 340							
	Aliso Viejo	Twelve Pickett Lane	Detached	188	165	\$295, 990	500 1115	2000	575.7		2.027	1/4	27.74	0.00
	Talega (CFD No.90-2)	Solana	Detached	120	108	\$200 000	4134 660	200 000	*	1,000	7,840	216/	\$2,496	%080
	Ladera Ranch	Sarasota	Detached	76	70	6106 980	2007	200 210	1,010	1,960	2,2	\$166	\$2,275	0.70%
1	Aliso Viejo	Promenade	Detached	217	194	8109 990	23.000	200 011		2,007	2,264	5183	\$2,938	0.90%
	Ladera Ranch	The Gables	Detached	120	36	410. 090	200	200	7,400	1,686	1,965	200	2,640	0.80%
	Aliso Viejo	Woodlands	Detached	7	3	6119 800	9330, 930	137, 990	1,600	1,796	1,995	262	\$2,974	0.90%
	Ladera Ranch	Whispering Creek	Detached	106		200,000	213,239	\$159,990	1,499	1,703	2,067	\$191	\$2,720	0.80%
	Forster Highlands	Ashton	Detached	144	5 5	3749 000	1345,990	\$364,990	1,863	2,159	2,434	\$160	53,114	0.90%
	Aliso Viejo	Skyview	Detached	1		200, 200	\$366,490	6369,990	1,595	1,052	2,109	\$188	\$1,466	0.40%
	Talega (CFD No.90-2)	Farrolon Ridge	Detached	132	2	6161 000	2084,990	\$199,990	1,11	2,025	2,276	2190	\$3,080	0.80%
	Rancho Santa Marganita	Monterey	Detached	66	5	6369 690	000 000	2404, 250	1,900	2.080	2,300	\$188	\$2,698	0.70%
	Laders Ranch	Reston	Detached	117	-	6360 090	9370, 990	\$411,990	2,578	2,902	1,225	\$135	\$3,323	0.85%
						2000	9354,930	2424, 990	1,991	2,222	2,452	2111	\$3,537	0.00%
Detach: \$400-500,000	Forster Highlands	Ridgemore	Detached	127	3	8100 000	4411 490	4477 000						
Detach: \$400-500,000	Ladera Ranch	Fairfield	Detached	98	8	8403.900	6411 400	4422 990	2,000	2,300	2,600	\$179	\$1,646	0.40%
Detach: \$400-500,000	Talega (CFD No.90-2)	Seaside	Detached	140	100	8460.000	6414 490	200 117	100	2,663	2,612	2134	13.721	0.90%
	Ladera Ranch	Chimney Corners	Detached	92	۽	200	200	26.77.78	777	3,46	2,666	\$169	\$2,90	ž.
	Rencho Santa Merganita	Las Rosas	Detached	ä	=	100	000 000		7.27	2,465	2,693	\$169	\$3,749	2000
	Ladera Ranch	Mampton Road	Detached	2	4	2444 940	4460 000	0.00 000	7,717	111	3,443	\$143	\$3,918	0.85%
Detach: \$400-500,000	Forster Highlands	Les Veredas	Detached	7	ę	8467,990	8484 990	8501 990	200	71,21	2,232	P. C.	2,230	2000
	Talega (CFD No.90-2)	Monterey	Detached	108	108	\$446,000	8495, 500	5545,000	2 683	200		2000	2	2040
													43,403	60.0
	Aliso Viejo	Kensington	Detached	154	154	\$475,990	\$502.490	\$528.990	2 842	37.		0713	00000	, ,
	Talega (CFD No.90-2)	Talega Gallery/Sentors	Detached	295	0	8365,000	\$507.500	\$650 000	123	, ,		90,0	070	0.80%
	San Joaquin Hills	The Knolls	Detached	630	253	\$469,990	\$509,990	\$529,990	2.420	2.570	2 710	518	55,55	60/0
	Aliso Viejo	Oakview	Detached	115	115	\$503,990	\$522,990	\$541,990	2.841	1.189	2.572	\$184	181.15	/8080
	Ladera Ranch	Amberly Lane	Detached	100	19	\$486,990	\$531,490	\$575,990	2,905	3.028	3,150	\$178	24.78	7906
ĺ	Talega (CFD No.90-2)	San Rafael	Detached	80	7.6	\$515,990	\$532,990	\$549,990	3,116	3,326	3, 536	2180	17.13	0.70%
	Forster Highlands	Compass Pointe	Detached	92	48	\$539,990	\$557,490	\$574,990	3,000	3,200	3.400	\$174	\$2,230	7000
Detect: \$500-800,000	Ladera Ranch	Weth	Detached	133	65	\$520,000	\$560,000	\$600,000	1,137	01,710	4,083	\$151	\$5,040	*06.0
	Aliso Viejo	Silver Oaks	Detached	81	76	\$549,990	\$560,490	\$570,990	3,407	3,580	3,753	\$157	24.64	0.80%
	Lodges Parch	Cancomar	Detached	66	*	\$564,990	\$\$75,490	\$585,990	1,111	3,718	4,305	\$155	\$1,302	0.40%
		Detrionic nata	Detached	7,	7	\$545,000	\$580,000	\$615,000	3,150	3,606	4,054	\$161	\$5,220	0.90%
Detach: \$600-800,000	Talega (CFD No.90-2)	Pacifica	Det ached	;	92	200								
	Coto de Caza	Rosewood	Derached	-	1	200 000	000,5100	3685,000	3,498	3,802	4, 106	\$162	24 ,305	0.70%
	San Joaquin Hills	Summerset	Detached	230	2	6614 500	000 6104	000 900	3,665	1.87	4,076	8180	\$3,199	0.55%
	Coto de Caza	Silver Creek	Detached	7.	85	\$660.000	8680 000	6200 000	7,367	3, 364	1,713	\$183		
		Pacifica Summit	Detached	61	0	\$630,000	\$690,000	\$750.000	2 700	200	200	100	55,740	0.55%
		San Angelo	Detached	62	19	\$691,990	\$707,990	\$723,990	3 905	1 69 5	200	6177	0.68.0	0.70%
		Springhill	Detached	32	25	\$690,000	\$760,000	\$830.000	118	7 300	2007	223	25,032	\$ 1
Delech: \$600-800,000	Colo de Caza	Chatham	Detached	69	35	\$755,000	\$778,000	\$801,000	4, 500	4. 628	35.	2489	200	0.33%
												3	,,,,,,	4.55%
Detach: \$800,000+	Colo de Caza	Oak View	Detached	9.7	39	\$768,000	\$858,488	\$948,975	3,900	4, 750	5.600	\$181	\$4.72	7455 0
	T-1 (000 to 1828	Oak Knoll	Detached	18	29	\$1,045,000	\$1,085,000	\$1,125,000	4,700	\$,250	5,800	\$207	\$5.968	0.55%
	I BIEGA (CFU No.90-2)	Vizcaya	Detached	*	2	\$1,019,950	\$1,124,950	\$1,209,950	4,689	4,995	5, 300	\$225	\$7.875	7.02.0
	Coto de Caza	Private Collection	Detached	74	20	\$900,000	\$1,125,000	\$1,350,000	4,700	5,356	6,011	\$210	\$6.188	250
0.00													-	
Apartment														
				SIN	661									
Attached : Below \$275,000			•	ş	25.5	6227 003	6340 888							
Attached: Above \$275,000			3	269	162	\$287,993	\$306,160	\$324.327	1 6.60	0 0	1,582	\$178	\$2,059	0.82%
											7.00	/014	\$2074	0.02%
Delech: \$300 400,000			2	1,683	1.029	\$327.875	\$349.163	\$370.452	1,736	1,991	t	╀	\$2,772	7670
Delech: \$400-500,000			× ;	246	476	2424.480	\$445,930	8467,380	2.476	2,715	H	Н	\$3,197	0.72%
Delech \$600-800 000				1,831	888	\$505.265	1000	\$574,902	2.884	3.261	3,639	\$167	\$3,955	0.73%
Delach: \$800 000+				216	200	\$646.811	5807.436	\$728,061	3.622	3,965	7	\dashv	\$3,938	0.57%
Grand Total			2	8 993	50.0	6480010	\$1,046,359	\$1,759,481	6	5,088	+	+	\$6,189	0.59%
						2000	100,100	003,1666	7007	7,977	┪	┨	\$3,455	0.73%

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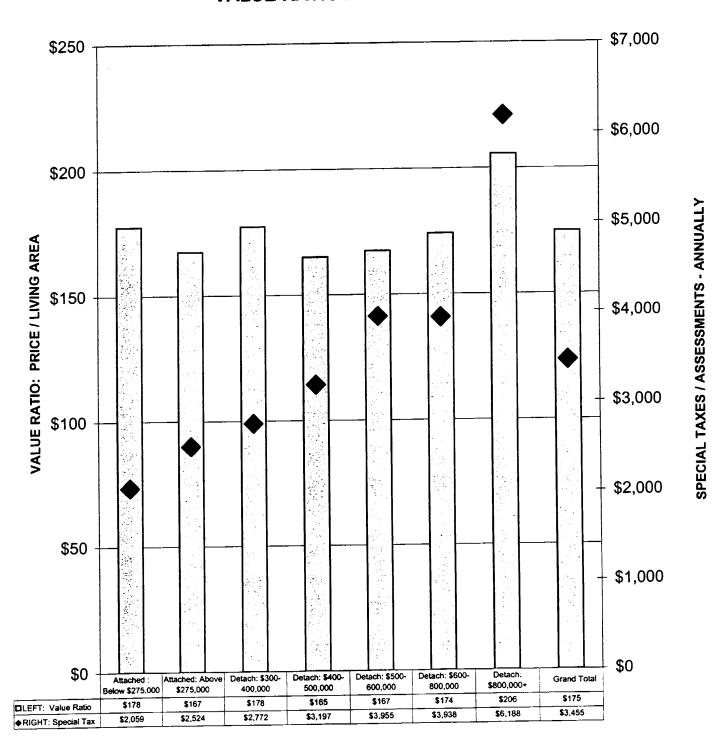
CHARACTERISTICS OF THE "COMPARABLE" ACTIVE PROJECTS IN SOUTH ORANGE COUNTY BY MARKET SEGMENTS

CHARACTERISTICS OF THE CURRENTLY ACTIVE PROJECTS BY MARKET SEGMENTS - SOUTHERLY OF EL TORO HOUSING PRICES AND LIVING AREAS



Page 22

CHARACTERISTICS OF THE CURRENTLY ACTIVE PROJECTS BY MARKET SEGMENTS - SOUTHERLY OF EL TORO VALUE RATIOS AND SPECIAL TAXES



Page 23

RECENT CONDITIONS IN THE SOUTH ORANGE COUNTY OFFICE, INDUSTRIAL, RESEARCH/DEVELOPMENT AND RETAIL MARKETS

To provide an overview of the recent conditions for the office, industrial, research/development and retail markets in South Orange County, Empire Economics utilized information from a report prepared by Grubb & Ellis, a major retail-commercial real estate brokerage firm in Southern California.

- ➤ The South Orange County retail market had a vacancy rate of some 8.30% in 1st-2001, and this represents an increase of some 1.70% from the vacancy rate of 6.60% in the 1st-2000. Retail rents in the 1st-2001 attained a level of \$2.05, and this represents a significant increase of \$0.32 from the rents of \$1.73 for the 1st2000.
- The South Orange County office market had a vacancy rate of some 11.20% in 1st-2001, and this represents an increase of some 1.60% from the vacancy rate of 9.60% in the 1st-2000. Office rents in the 1st-2001 attained a level of \$2.30, and this represents a substantial increase of \$0.22 from the rents of \$2.08 for the 1st2000.
- The South Orange County manufacturing/warehouse-distribution market had a vacancy rate of some 1.60% in 1st-2001, and this represents a decrease of some 1.30% from the vacancy rate of 2.90% in the 1st-2000. Manufacturing/warehouse-distribution rents in the 1st-2001 were at a level of \$0.67, and this is the same as the rents for the 1st2000.
- The South Orange County research/development market had a vacancy rate of some 7.80% in 1st-2000, and this represents a decrease of some 5.40% from the vacancy rate of 2.40% in the 1st-2001. Research/development rents in the 1st-2001 attained a level of \$0.95, and this represents a significant increase of \$0.12 from the rents of \$0.83 for the 1st2000.

Therefore, during the past year, the South Orange County industrial and research/development markets have recently experienced declining vacancy rates and moderate/similar rent levels. While the office and retail market have experienced significant increases in their rents levels; however, their vacancy rates have increased. Specifically, the latter can be attributed to substantial amounts of new construction activity as well as significantly higher levels of rents.

ESTIMATED ABSORPTION SCHEDULES FOR THE CURRENT AND FORTHCOMING PROJECTS IN CFD NO.90-2 (TALEGA)

The purpose of this section is to estimate the absorption schedules for the forthcoming residential, business, and commercial-retail products in CFD No.90-2 (Talega); accordingly, this is based upon a consideration of the following:

First, the potential demand schedules for the residential, business and commercial-retail products for the CFD No.90-2 (Talega) were derived, based upon a consideration of the following:

- * The growth prospects for the Southern California Market Region, in general.
- * How much of the Southern California growth the CFD No.90-2 Market Area, southerly Orange County, is expected to capture, in particular.
- * The proportion of the Market Area demand that is expected to be captured by the projects in CFD No.90-2 (Talega), based upon an evaluation of the competitiveness in the marketplace.

Thus, the result of this analysis is the POTENTIAL demand for the forthcoming residential, business and commercial-retail products in the CFD No.90-2 (Talega).

Next, the ability of the CFD No.90-2 (Talega) to respond to this demand is estimated. Accordingly, the infrastructure development schedule for the residential, business and commercial-retail products was obtained from Talega Associates, LLC. Specifically, this represents, from a time perspective, when the products in each of the phases will have the infrastructure in place that is required to support their development. So, the result of this analysis is the INFRASTRUCTURE DEVELOPMENT of the properties in the CFD No.90-2 (Talega), and this reflects their ability to respond to the demand in the marketplace.

Then, based upon a consideration of the POTENTIAL demand and the INFRASTRUCTURE DEVELOPMENT, the absorption rate for products in each of the market segments is calculated, from the year in which the projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units/acres are occupied/utilized.

The application of this algorithm results in the absorption schedules for the products in CFD No.90-2 (Talega); absorption represents the structure being constructed as well as being occupied by a final-user.

The absorption schedules presented below presume that all City building permit allocations as well as 404-Permit and environmental approvals are <u>hereafter</u> received in a timely manner.

The residential projects in the CFD No.90-2 (Talega) started construction in 1999, and commenced escrow closings to homeowners in early 2000 with some 682 homes closing their escrows as of July 1, 2001. The estimated absorption schedules for the remaining 2,730 homes are as follows:

```
during 2000, 495 homes.
during 2001, 343 homes, due to Phases I and II approaching build-out.
during 2002, 446 homes, as apartment projects enter the marketplace.
during 2003, 636 homes, as Phase III products enter the marketplace.
during 2004, 572 homes.
during 2005, 429 homes.
during 2006, 319 homes.
during 2007, 162 homes, as various product lines approach build-out.
during 2008, 10 homes, as the final units are sold.
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With respect to the 8.9 acres of commercial-retail property, the demand for these retail centers is based upon the absorption of homes in CFD No.90-2 (Talega), along with the purchasing power of these households. Accordingly, based upon a consideration of these factors, the absorption for commercial-retail property is expected to amount to 4.2 acres in 2003 and 4.7 acres in 2005.

With regards to the 66.9 acres of Business Park properties, the absorption is based upon the expansion of Orange County's employment centers into the far southern portion of the county. The absorption of Business Park properties is expected to amount to 5 acres in 2001, 10 acres in 2002, some 15 acres per year during 2003-2005, and the remaining 6.9 acres in 2006.

For additional information on the estimated absorption schedules for the residential, business and commercial-retail/office properties/products in CFD No.90-2 (Talega), please refer to the following table and graphs.

ESTIMATED ABSORPTION SCHEDULES FOR CFD NO.90-2 (TALEGA)

(ABSORPTION = BUILT AND OCCUPIED BY A FINAL-USER)

(EXCLUDING AGE-RESTRICTED UNITS)

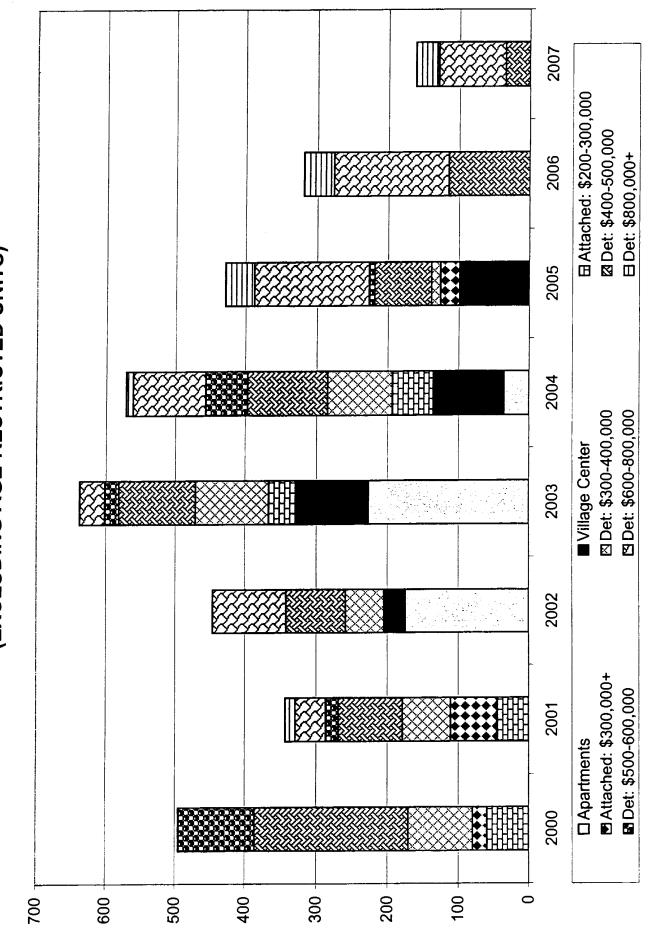
AUGUST 1, 2001 SUBJECT TO REVISION

	Seniors	Aparlments	Village	Attached	hed			Delached				Telefo				
	φυφ		0000	10.00	1	000 000	0000000	20000					KetallOffice	Mice	Business	88
	Restricted			\$300 000	4300 000	\$300,000	400,000	000,000	\$600,000	Above	Annually	Cumul.	Annually	Cumul.	Annually	Cumul.
				200,000	200,000	4020,233	669,999	808,886	868,887	3800,000						
Adjustments for CED No 90.2 Seplore	Demoved 205												8.9		6.99	
	100000000000000000000000000000000000000									Removed 46						
Number of Housing Units														1		
Units	0	438	329	203	, 113	421	-28	215	702	150		3.440		1		
Share	%0.0	12.8%	%9.6	5.9%	3.3%	12.3%	24.6%	6.3%	20.6%	4.4%		46				
												3.458				
Status Approvals - Active Builders												295				
Project - Currently Active	N/A	N/A	W/A	Trindad	Carmel	Solona	Terra Linda	San Rafael	Pacificia/Sum.	Vizcava		3,753				
						Farrolon Ridge	Monterey	Pacificia								
							Seaside									
Closed Escrows	0	0	0	91	89	120	275	115	0	13		683				
Future Units	0	0	0	14	18	132	4	12	19	-		279				
Total	0	٥	0	105	86	252	316	127	61	4		961				
Status Approvats																
County	0	438	0	105	113	252	250	0	231	4	41.1%	1 403				
Cily	0	0	329	86	0	169	591	215	425	182	58.9%	2.009				
RDEB - City Only - Secured	0	0	210	0	0	0	288	133	48	0		629				
RDEB - City Only - Required	0	٥	119	96	٥	169	303	82	37.7	182		1,330				
Housing Characteristics:																
Base Prices	\$450,000	\$150,000	\$226,500	\$252,999	\$347,500	\$355,240	\$441.997	\$550,000	\$652.500	\$1 124 950						
Living Areas	2,400	1,250	1,425	1,523	2,197	2,005	2,708	3,200	3,651	\$86						
Value Ralios: (Price/Area)	\$188	\$120	\$159	\$166	\$158	\$177	\$163	\$172	\$179	\$225						
Special Taxes \$0.971																
(Water & School Districts)																
Amount - Annually	\$2,331	\$1,214	\$1,384	\$1,479	\$2,134	\$1,947	\$2,630	83,108	\$3,548	\$4,851						
Percent Price	0.52%	0.81%	0.61%	0.56%	0.61%	0.55%	0.59%	0.57%	0.54%	0.43%						

ESTIMATED ABSORPTION SCHEDULES FOR CFD NO.90-2 (TALEGA) (ABSORPTION = BUILT AND OCCUPIED BY A FINAL-USER) (EXCLUDING AGE-RESTRICTED UNITS) AUGUST 1, 2001 SUBJECT TO REVISION

	Seniors	Apadments	Village	Attached	Ped											
	Ace		26.0		0015			Detached			Tot	Totals	Retail/Office	Office	Business	988
	Restricted		Certifier	\$300,000	\$300,000	\$399,999	\$400,000 \$499,999	\$599,999	000,009\$	Above \$800,000	Annually	Cumul.	Annually	Cumul.	Annually	Cumul.
													9			
						Cumulatively	lively						0.0		600	
Absorption: Homeowners																
2000	0	0	0	9	20	91	215	109	0	C		405	0		0	
2001 June 30, 2001	0	0	0	91	68	120	275	115	0	2		683		000	0.0	0.0
-1										2		900	0.0	0.0	0.0	0.0
2001 December 31, 2001	0	0	0	105	98	159	305	127	42	14		878	6			
2002	0	175	30	105	98	213	388	127	146	7		1 284	0.0	0.0	0.0	0.6
2003	0	402	130	145	98	317	499	147	180	4		1 920	0.0	0.0	0.01	15.0
2004	0	438	230	203	98	408	611	207	285	24		2 492	0.0	7.7	0.0	30.0
2005	0	438	329	203	113	421	169	215	446	65		2 921	4.7	2 0	2	0.00
2006	0	438	329	203	113	421	909	215	609	107		3.240	0	0 8	0.61	0000
2007	0	438	329	203	113	421	148	215	702	140		3,402		6 0	0	5.00
2008	0	438	329	203	113	421	1.28	215	702	150		3.412		0.0	000	5.00
5009	0	438	329	203	113	421	841	215	702	150		3412	000	0.0		6.00
2010	0	438	329	203	113	421	28	215	702	150		3412	000	0 0	200	6.00
2011	0	438	329	203	113	421	148	215	702	150		3412	000	0.60	000	000
														2	2.0	600
Totals	0	438	329	203	113	421	128	215	704	150						
		438	329	203	113	421	28	215	702	150						
						Annually										
Absorption: Homeowners																
2000	0	0	0	69	20	16	215	109	0	0	495	495	5	00	00	0
2001	0	0	0	45	99	99	8	18	42	14	343	838	0.0	000	20	0.50
2002	0	175	30	٥	0	25	63	0	104	0	446	1,284	0.0	0.0	10.0	15.0
2003	0	227	100	0	0	104	111	20	25	0	636	1,920	4.2	4.2	15.0	30.0
2004	0	36	100	58	0	91	112	09	105	10	572	2,492	0.0	4.2	15.0	45.0
2005	0	0	66	0	27	13	80	8	161	41	429	2,921	4.7	6.8	15.0	0.09
2006	0	0	0	0	0	0	115	0	162	42	319	3,240	0.0	8.9	6.9	6.99
2007	0	0	0	0	0	0	35	0	94	33	162	3,402	0.0	6.8	0.0	699
2008	0	0	0	0	0	0	0	0	0	10	10	3.412	0.0	6 8	0.0	689
2009	0	٥	0	0	0	0	o	0	0	0	٥	3,412	0.0	0.6	2	66.9
2010	0	0	0	0	0	0	0	0	0	0	0	3,412	0.0	0 00	00	6,00
2011	0	0	0	0	0	0	0	0	0	0	0	3,412	0.0	6.8	00	99
		1												,	2	200
Totals	0	438	329	203	113	421	841	215	702	150	3.412					
Averages	0	146	82	5	38	85	105	25	Ş	75	425					

EXPECTED RESIDENTIAL ABSORPTION FOR CFD NO. 90-2 (TALEGA) (EXCLUDING AGE-RESTRICTED UNITS)



NUMBER OF HOUSING UNITS - ANNUALLY

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EXPECTED COMMERCIAL-RETAIL AND BUSINESS PARK ABSORPTION FOR CFD NO. 90-2 (TALEGA) ⊠ Business □Retail

NUMBER OF ACRES - ANNUALLY

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ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No.90-2 (Talega) is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property **Property Boundaries** Accuracy of Information from Others Date of Study Hidden or Unapparent Conditions Opinions of a Legal/Specialized Nature Right of Publication of Report Soil and Geological Studies Earthquakes and Seismic Hazards Testimony or Court Attendance Maps and Exhibits Environmental and Other Regulations Land-Use Regulations and Restrictions Required Permits and Other Governmental Authority Liability of Market Analyst Presence and Impact of Hazardous Material Structural Deficiencies of Improvements Presence of Asbestos Acreage of Property Designated Economic Scenario Provision of the Infrastructure; Role of Coordinator Developer/Builders Responsiveness to Market Conditions Financial Strength of the Project Developer/Builders Market Absorption Study Timeliness of Results

For additional information on the various assumptions and limiting conditions, please refer to the comprehensive Market Study.

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APPENDIX C

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Capistrano Unified School District Community Facilities District No. 90-2 (Talega) ("CFD No. 90-2") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Golf Course Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property," "Taxable Senior Housing Property," "Undeveloped Non-Residential Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. <u>DEFINITIONS</u>

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 90-2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with School District, CFD No. 90-2 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 90-2 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the School District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or CFD No. 90-2 for any other administrative purposes of CFD No. 90-2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

- "Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's Parcel number.
- "Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.
- "Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Backup Special Tax" means the Special Tax applicable to each Assessor's Parcel of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Board" means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 90-2.
- "Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 90-2 under the Act.
- "CFD Administrator" means an official of the School District, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.
- "CFD No. 90-2" means Capistrano Unified School District Community Facilities District No. 90-2 (Talega).
- "County" means the County of Orange.
- "Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Taxable Senior Housing Property, for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.
- "Expected Special Tax" means the Special Tax for each Acre of Undeveloped Non-Residential Property, as determined in accordance with Section C below.
- "Fiscal Year" means the period starting July 1 and ending on the following June 30.
- "Golf Course Property" means the area consisting of up to 206.6 acres of the golf course property described and geographically identified in Attachment A to this Rate and Method of Apportionment and in Exhibit A of the Talega Area Plan dated September 8, 1998 for planning areas B, C, G, H, and I, and portions of planning areas D and E, as amended from time-to-time or modified pursuant to a precise site plan for such golf course property.
- "Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Land Use Class" means any of the classes listed in Table 1.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Taxable Property.

"Non-Residential Floor Area" means the total building square footage of the building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides. The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

"Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.

"Property Owner Association Property" means any property within the boundaries of CFD No. 90-2 that is owned by or dedicated to a property owner association, including any master or sub-association.

"Proportionately" means for Developed Property and Taxable Senior Housing Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property and Taxable Senior Housing Property within CFD No. 90-2. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 90-2. For Undeveloped Non-Residential Property, "Proportionately" means the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Non-Residential Property in CFD No. 90-2.

"Public Property" means any property within the boundaries of CFD No. 90-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

"Religious Property" means all property within the boundary of CFD No. 90-2 which is used primarily as a place of worship and is exempt from ad valorem property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

"Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

"School District" means the Capistrano Unified School District.

"Senior Housing Property" means all Assessor's Parcels which are used or intended to be used as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code Section 65995.1. An Assessor's Parcel shall only be designated as Senior Housing Property if Senior Citizen Restrictions have been recorded with respect to such Assessor's Parcel.

"Senior Citizen Restriction" means a restriction limiting the use of an Assessor's Parcel to senior citizen housing, as defined in Section 65995.1 of the Government Code, under a final map, other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar binding recorded instrument that may not be amended to remove such use limitation without prior written notice to School District.

"Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Undeveloped Property, Undeveloped Non-Residential Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Taxable Senior Housing Property to fund the Special Tax Requirement.

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Golf Course Property" means all of the Assessor's Parcels of Golf Course Property that are not exempt pursuant to Section E below.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Taxable Religious Property" means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.

"Taxable Senior Housing Property" means all Assessor's Parcels of Senior Housing Property that are not exempt pursuant to Section E below.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Non-Residential Property" means, for each Fiscal Year, all Assessor's Parcels that are zoned for commercial or industrial use, and for which no building permit for a commercial or industrial structure has been issued.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, Taxable Senior Housing Property, or Undeveloped Non-Residential Property.

B. **ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all Taxable Property within CFD No. 90-2 shall be classified as Developed Property, Taxable Golf Course Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property, Undeveloped Non-Residential Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Developed Property shall be further classified as Residential Property and Non-Residential Property.

Residential Property shall be assigned to Land Use Class 1, Taxable Senior Housing Property shall be assigned to Land Use Class 2, and Non-Residential Property shall be assigned to Land Use Class 3.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property and Taxable Senior Housing Property

a. <u>Maximum Special Tax</u>

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property or Taxable Senior Housing Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class is shown below in Table 1. The Assigned Special Tax for Residential Property and Taxable Senior Housing Property shall be based on the amount of Residential Floor Area on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the amount of Non-Residential Floor Area on the Assessor's Parcel.

TABLE 1

Assigned Special Taxes for Developed Property and Taxable Senior Housing Property For Fiscal Year 1999-2000 Community Facilities District No. 90-2

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3294 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3294 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0599 per square foot of Non-Residential Floor Area.

c. Backup Special Tax

The Fiscal Year 1999-2000 Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property shall equal \$0.1670 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax shall not apply to the first 100 Acres of Non-Residential Property, as determined by the CFD Administrator.

d. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2000, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property

a. <u>Maximum Special Tax</u>

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property in CFD No. 90-2 shall be \$6,177 per Acre.

b. <u>Increase in the Maximum Special Tax</u>

On each July 1, commencing on July 1, 2000, the Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

3. Undeveloped Non-Residential Property

a. Expected Special Tax

The Fiscal Year 1999-2000 Expected Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$1,123 per Acre.

b. <u>Maximum Special Tax</u>

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$6,177 per Acre.

c. <u>Increase in the Maximum Special Tax and Expected Special Tax</u>

On each July 1, commencing on July 1, 2000, the Maximum Special Tax and Expected Special Tax for Undeveloped Non-Residential Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

<u>First</u>: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement.

<u>Second</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Expected Tax for Undeveloped Non-Residential Property, respectively;

<u>Third</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

<u>Fourth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

<u>Fifth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel

of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

E. <u>EXEMPTIONS</u>

No Special Tax shall be levied on up to 1,230.74 Acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 Acres of Golf Course Property. In addition, no Special Tax shall be levied on up to 66.02 Acres of Senior Housing Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Golf Course Property, Property Owner Association Property, Public Property, Religious Property or Senior Housing Property Owner Association Property, Public Property, Religious Property, or Senior Housing Property Owner Association Property, Public Property, Religious Property, or Senior Housing Property its tax-exempt status will be revoked.

F. REVIEW/APPEAL COMMITTEE

The Board shall establish as part of the proceedings and administration of CFD No. 90-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that CFD No. 90-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means either \$33,938,000 million in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 90-2 under the authorized bonding program for CFD No. 90-2, or (ii) shall be

determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

"Outstanding Bonds" means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 90-2 prior to the date of prepayment.

1. Prepayment in Full

All Assessor's Parcels of Developed Property or Taxable Senior Housing Property and Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 90-2 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

Bond Redemption Amount

plus Redemption Premium
plus Future Facilities Amount
plus Defeasance Amount

plus Administrative Fees and Expenses

less Reserve Fund Credit

<u>less</u> <u>Capitalized Interest Credit</u>

Total: equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

- 1. For Assessor's Parcels of Developed Property or Taxable Senior Housing Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
- 2. (a) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 90-2 based on the Developed Property Special Taxes and Taxable Senior Housing Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 90-2, excluding any Assessor's Parcels which have been prepaid, and
 - (b) Divide the Backup Special Tax computed pursuant to paragraph 1 by the estimated Backup Special Taxes at buildout of CFD No. 90-2 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
- 3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
- 4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
- 5. Compute the current Future Facilities Costs
- 6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
- 7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
- 8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.

- 9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
- 10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
- 11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
- 12. Verify the administrative fees and expenses of No. 90-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
- 13. The reserve fund credit (the 'Reserve Fund Credit'') shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
- 14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
- 15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
- 16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 90-2.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to

indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 90-2 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Maximum Special Tax on an Assessor's Parcel of Developed Property or Taxable Senior Housing Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

 $PP = P_E F$.

These terms have the following meaning:

PP = the partial prepayment

P_E = the Prepayment Amount calculated according to Section H.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially prepaying the Maximum Annual Special Tax.

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and will charge a fee to the owner requesting prepayment for providing this figure.

With respect to any Assessor's Parcel that is partially prepaid, the School District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 90-2 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2041-42.

(Attachment A describing and identifying the Golf Course Property has been omitted.)

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a summary of certain provisions of the Indenture. This summary is not to be considered a full statement of the terms of the Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or elsewhere in the Official Statement have the respective meanings set forth in the Indenture.

Certain Definitions

<u>Act</u>

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

Administrative Expenses

"Administrative Expenses" means the administrative costs incurred by the School District staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys' fees and other costs related thereto, the fees and expenses of the Fiscal Agent, any fees for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District's compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, costs incurred by the District in pursuit of State funding, and any other costs otherwise incurred by the School District staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Amendment and any obligation of the District under the Indenture.

Administrative Expense Cap

"Administrative Expense Cap" means the amount of \$75,000 with such amount escalating by 2% per Bond Year beginning September 2, 2002, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District, including the Special Reserve Fund.

Annual Debt Service

"Annual Debt Service" means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

Appraisal

"Appraisal" means the appraisal of the taxable property in the District dated August 15, 2001 performed by Bruce Hull & Associates, MAI in connection with the initial sale and issuance of the Bonds.

Authorized Investments

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America ("Direct Obligations").
- (2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - (a) U.S. Export-Import Bank (Eximbank)
 Direct obligations or fully guaranteed certificates of beneficial ownership
 - (b) Farmers Home Administration (FmHA)
 Certificates of beneficial ownership
 - (c) Federal Financing Bank
 - (d) Federal Housing Administration Debentures (FHA)
 - (e) General Services Administration Participation certificates
 - (f) Government National Mortgage Association ("GNMA" or "Ginnie Mae")
 GNMA-guaranteed mortgage-backed bonds
 GNMA-guaranteed pass-through obligations
 - (g) U.S. Maritime Administration Guaranteed Title XI financing
 - (h) U.S. Department of Housing and Urban Development (HUD)
 Project Notes
 Local Authority Bonds
 New Communities Debentures U.S. government guaranteed debentures
 U.S. Public Housing Notes and Bonds U.S. government guaranteed public housing notes and bonds
- (3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
 - (a) Federal Home Loan Bank System Senior debt obligations
 - (b) Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac")
 Participation certificates
 Senior debt obligations
 - (c) Federal National Mortgage Association ("FNMA" or "Fannie Mae")
 Mortgage-backed securities and senior debt obligations
 - (d) Student Loan Marketing Association ("SLMA" or "Sallie Mae") Senior debt obligations

- (e) Resolution Funding Corp. (REFCORP) obligations
- (f) Farm Credit System Corp. Consolidated system-wide bonds and notes
- (4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor's of AAAm-G, AAAm or AAm, and, if rated by Moody's, rated Aaa, Aa1 or Aa2 (including those of the Fiscal Agent and its affiliates or funds for which the Fiscal Agent or affiliates provide investment advisory or other management services).
- (5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Fiscal Agent on behalf of the Bondholders must have a perfected first security interest in the collateral.
- (6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or which are with a bank rated AA or better by Standard & Poor's and Aa or better by Moody's (including those of the Fiscal Agent and its affiliates).
- (7) Investment Agreements with any corporation, including banking or financial institutions, provided that
 - (a) the long-term debt of the provider of any such investment agreement is rated, at the time of investment, in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and
 - (b) any such investment agreement is collateralized with United States Treasury or agency obligations which at least equal 102% of the principal amount invested thereunder, and
 - (c) any such agreement shall include a provision to the effect that, (a) in the event the long-term debt rating of the provider of such agreement is downgraded below one of the two highest rating categories offered by any Rating Agency, (without regard to gradations of plus or minus, or numerical gradations, within such category) (b) in the event of default under such Investment Agreement by such provider, or (c) in the event of a bankruptcy of such provider, the District has the right to withdraw or cause the Fiscal Agent to withdraw all funds invested in such agreement and thereafter to invest such funds pursuant to this Indenture, and
 - (d) any such investment agreement permits withdrawal upon three (3) days notice (excepting only the Acquisition and Construction Fund which may provide for seven (7) days notice) for any purpose authorized for the use of the invested funds under this Indenture.
- (8) Commercial paper rated, at the time of purchase, "Prime 1" by Moody's and "A-1" or better by Standard & Poor's.
- (9) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.

- (10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of "Prime 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.
- (11) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's, and "A-1" or "A-" by Standard & Poor's; provided:
 - (a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and
 - (b) the securities are held free and clear of any lien by the Fiscal Agent or an independent third party acting solely as agent ("Agent") for the Fiscal Agent, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, or (iii) a bank approved in writing for such purpose by Financial Guaranty Insurance Company, and the Fiscal Agent shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Fiscal Agent; and
 - (c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Fiscal Agent; and
 - (d) the repurchase agreement has a term of 180 days or less, and the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; and
 - (e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%
 - (12) Any other investment which the District is permitted by law to make.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Fiscal Agent shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

Authorized Representative of the District

"Authorized Representative of the District" means the Superintendent or any other person or persons designated by the Board of Trustees and authorized to act on behalf of the School District by a written certificate signed on behalf of the School District by the President of the Board of Trustees and containing the specimen signature of each such person.

Bond Year

"Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end of the first September 1 which is not more than 12 months after the Delivery Date.

Business Day

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the City where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

Certificate of the School District Assistant Superintendent, Facilities Planning

"Certificate of the School District Assistant Superintendent, Facilities Planning" means a written certificate or requisition executed by the School District Assistant Superintendent, Facilities Planning, or his written designee on behalf of the School District.

Certificate of the Special Tax Administrator

"Certificate of the Special Tax Administrator" means a written certificate of David Taussig & Associates, Inc., in its capacity as the consultant engaged by the School District to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

Code

"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.

Costs of Issuance

"Costs of Issuance" means the costs and expenses incurred in connection with the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds or any Parity Bonds, fees of financial consultants, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Assistant Superintendent, Facilities Planning.

Delivery Date

"Delivery Date" means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

Direct Debt for Developed Property

"Direct Debt for Developed Property" means that portion of the aggregate principal amount of the Outstanding Bonds which is allocable to the Developed Property. For this purpose, there will be allocated to the Developed Property the largest principal amount of Bonds that results in (1) the maximum Special Taxes that may be levied on Developed Property (not including any parcels of Developed Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Property for such Fiscal Year of taxation and (2) a Value of Developed Property at least 3 ½ times greater than the sum of Direct Debt for Developed Property plus Overlapping Debt allocable to Developed Property. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Direct Debt for Developed Property and the portion of the total Administrative Expenses allocable to Developed Property shall be the same portion that Special Taxes on Developed Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

"Direct Debt for District Property" means that portion of the aggregate principal amount of the Outstanding Bonds which is allocable to the property in the District. For this purpose there will be allocated to the property in the District the largest principal amount of Bonds that results in a Value of District Property at least three times greater than the sum of Direct Debt for District Property plus Overlapping Debt allocable to all property in the District.

"Direct Debt for Near Term Property" means that portion of the aggregate principal amount of the Outstanding Bonds which is allocable to the Near Term Property. For this purpose, there will be allocated to the Near Term Property the largest principal amount of Bonds that results in (1) the maximum Special Taxes that may be levied on Near Term Property (not including any parcels of Near Term Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Near Term Property for such Fiscal Year of taxation and (2) a Value of Near Term Property at least 3 times greater than the sum of Direct Debt for Near Term Property plus Overlapping Debt allocable to Near Term Property. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of calculation of Direct Debt for Near Term Property and the portion of the total Administrative Expenses allocable to Near Term Property shall be the same portion that Special Taxes on Near Term Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

"Direct Debt for Undeveloped Property" means that portion of the aggregate principal amount of the Outstanding Bonds which is allocable to the Undeveloped Property. For this purpose, there will be allocated to the Undeveloped Property the largest principal amount of Bonds that results in (1) the maximum Special Taxes that may be levied on Undeveloped Property (not including any parcels of Undeveloped Property with delinquent Special Taxes and assuming taxation as "Undeveloped Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Undeveloped Property for such Fiscal Year of taxation and (2) a Value of Undeveloped Property at least 2 ½ times greater than the sum of Direct Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for the last Fiscal Year ending prior to the date of

calculation of Direct Debt for Undeveloped Property and the portion of the total Administrative Expenses allocable to Undeveloped Property shall be the same portion that Special Taxes on Undeveloped Property represent of the total Special Taxes levied in the District in the then current Fiscal Year.

Federal Securities

"Federal Securities" means any of the following:

- (a) Cash
- (b) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS")
- (c) Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself, e.g., CATS, TIGRS and similar securities
- (d) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York and are in book-entry form.
- (e) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's.
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
 - (i) U.S. Export-Import Bank direct obligations or fully guaranteed certificates of beneficial ownership
 - (ii) Farmers Home Administration certificates of beneficial ownership
 - (iii) Federal Financing Bank
 - (iv) General Services Administration participation certificates
 - (v) U.S. Maritime Administration guaranteed Title XI financing
 - (vi) U.S. Department of Housing and Urban Development (HUD) Project Notes, Local Authority Bonds, New Communities Debentures U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds U.S. government guaranteed public housing notes and bonds.

Fiscal Agent

"Fiscal Agent" means U.S. Bank Trust National 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 the Indenture and any successor thereto.

Fiscal Year

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

Gross Taxes

"Gross Taxes" means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

Independent Financial Consultant

"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 the School District:
- 2. does not have any substantial interest, direct or indirect, in the District or the School District; and
- 3. is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District or the School District.

Maximum Annual Debt Service

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- 1. the principal amount of all Outstanding Bonds and Parity 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 and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

Moody's

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

Near Term Property

"Near Term Property" means real property within the District (i) with respect to which an "A" map creating conveyable parcels has been recorded with the County Recorder, (ii) for which grubbing and clearing are complete; (iii) for which both (A) rough cut and fill are 90% complete, and (B) grading on a materials moved basis is 90% complete; (iv) with respect to which a paved public access road with utilities, other than

water and sewer, are completed to within 100 yards of each parcel designated as Near Term Property and, with respect to water and sewer utilities, a final "A" map will serve letter has been executed by Santa Margarita Water District covering all of the Near Term Property; and (v) with respect to which no building permit for residential units or a non-residential building has been issued.

Net Taxes

"Net Taxes" means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax Installments) minus amounts set aside to pay Administrative Expenses.

Outstanding or Outstanding Bonds and Parity Bonds

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

- 1. Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;
- 2. Bonds and Parity 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 or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and
- 3. Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

Overlapping Debt

"Overlapping Debt" means with respect to any property within the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the "Other CFD Bonds") determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year.

Parity Bonds

"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 Supplemental Indenture, rank on a parity with the Bonds.

Person

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

Principal Office of the Fiscal Agent

"Principal Office of the Fiscal Agent" means the office of the Fiscal Agent located in Los Angeles, California 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.

Project

"Project" means those public facilities described in the Resolution of Amendment which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

Project Costs

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

Rating Agency

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

Rebate Fund

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

Rebate Regulations

"Rebate Regulations" means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

Record Date

"Record Date" means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

Regulations

"Regulations" means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

Reserve Requirement

"Reserve Requirement" means, as of any date of calculation by the District, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds and Parity Bonds.

Resolution of Amendment

"Resolution of Amendment" means Resolution No. 9899-112 adopted by the Board of Trustees of the School District on April 26, 1999, pursuant to which the District amended certain terms pertaining to the District.

<u>RMA</u>

"RMA" means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at the June 14, 1999 election, as amended from time to time.

School District

"School District" means the Capistrano Unified School District, California

Sinking Fund Payment

"Sinking Fund Payment" means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule therefor set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

Special Taxes

"Special Taxes" means the taxes authorized to be levied by the District in accordance with the Resolution of Amendment, the Act and the voter approval obtained at the June 14, 1999 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds and any Parity Bonds.

Standard & Poor's

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw-Hill, its successors and assigns.

Supplemental Indenture

"Supplemental Indenture" means any supplemental indenture amending or supplementing this Indenture.

Tax Certificate

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

Term Bonds

"Term Bonds" means Bonds which mature on September 1, 2022 and September 1, 2031, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

Underwriter

"Underwriter" means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of the Bonds or an issue of Parity Bonds.

Undeveloped Property

"Undeveloped Property" means taxable real property within the District which is not Developed Property or Near Term Property and with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property.

Value of Developed Property

"Value of Developed Property" means (i) the fair market value, as of the date of the appraisal provided for below, of any or all parcels of Developed Property which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such non-delinquent parcels the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the School District that has an MAI designation from the Appraisal Institute in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation and market absorption consistent with the Appraisal, provided that a mass appraisal methodology may be applied when valuing Developed Property; or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Orange.

Value of District Property

"Value of District Property" means (i) the fair market value, as of the date of the appraisal provided for below, of any or all parcels of property in the District which are subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such non-delinquent parcels the value of the then existing improvements thereon, as estimated by an appraiser selected and employed by the School District that has an MAI designation from the Appraisal Institute in an appraisal performed within ninety (90) days preceding the date of such determination based upon a methodology of valuation and market absorption consistent with the Appraisal, provided that a mass appraisal methodology may be applied when valuing Developed Property, or (ii) in the alternative, the full cash value of any or all of such non-delinquent parcels and the improvements thereon as set forth on the last equalized assessment roll of the County Assessor of the County of Orange.

Nature of Bonds and Parity Bonds

Neither the faith and credit nor the taxing power of the School District, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the District nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Indenture. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the District or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity 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 Net Taxes, and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Indenture and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Trustees of the District nor any persons executing the Bonds, or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds are equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account). Amounts in the Special Tax Fund of the District (other than the Administrative Expense Account therein) constitute a trust fund held for the benefit of the Owners of Bonds and Parity Bonds of the District to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds of the District and so long as any of such Bonds and any such Parity Bonds or interest thereon remain Outstanding are not to be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Net Taxes deposited in the Rebate Fund and the Special Reserve Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Special Reserve Fund, the Acquisition and Construction Fund nor the Administrative Expense Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

Creation of Funds and Accounts

There are created and established under the Indenture the following funds and accounts, maintained by the Fiscal Agent:

- (1) The Community Facilities District No. 90-2 (Talega) Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).
- (2) The Community Facilities District No. 90-2 (Talega) Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).
- (3) The Community Facilities District No. 90-2 (Talega) Special Reserve Fund (the "Special Reserve Fund").

(4) The Community Facilities District No. 90-2 (Talega) Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Construction Account).

The amounts on deposit in the foregoing funds, accounts and subaccounts will be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the Indenture.

In connection with the issuance of any Parity Bonds, the Fiscal Agent, at the direction of an Authorized Representative of the School District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

Deposits to and Disbursements from the Special Tax Fund

The District shall, on each date on which the Special Taxes are apportioned to the District transfer such Special Taxes to the Fiscal Agent. Upon receipt thereof, the Fiscal Agent shall deposit the Special Taxes in the Special Tax Fund to be held in trust. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund;
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Rebate Fund; and
- (7) The Special Reserve Fund.

At the maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Administrative Expense Account

In addition to bond proceeds deposited therein, the Fiscal Agent shall, commencing in Fiscal Year 2001-02, not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District; provided, however, that the total deposit made to the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the District.

Interest Account and Principal Account

The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making any required transfer to the Administrative Expense Account, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

- (a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.
- (b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2003, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account

- been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as described above, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, as described below. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.
- (b) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund, as described above, and to the Redemption Account for Sinking Fund Payments then due, and in accordance with the District's election to call Bonds for optional redemption, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for such Parity Bonds, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts

in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account

There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The amounts in the Reserve Account shall be applied as follows:

- (a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.
- (b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to above, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax

Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

In connection with an optional redemption of Parity Bonds in accordance with the Indenture or any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Indenture or any Supplemental Indenture, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for an issue of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on Bonds or an issue of Parity Bonds in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each March 1 and September 1 and transferred to the Interest Account of the Special Tax Fund.

Rebate Fund

The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury.

Special Reserve Fund

After making the transfers described above, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Special Reserve Fund, other than amounts in the Special Tax Fund which the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for the current Fiscal Year. The amounts in the Special Reserve 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.

Acquisition and Construction Fund

(a) The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance. Amounts for Project Costs or Costs of Issuance shall be disbursed by the Fiscal Agent from the account in the Acquisition and Construction Fund designated in a requisition signed by an Authorized Representative of the District, which must be submitted in connection with each requested disbursement. Amounts for Project Costs shall be disbursed by the Fiscal Agent from the Project Account in the order of priority and in the amounts, to the District, as provided in the Indenture.

(b) Upon receipt of a Certificate of the Assistant Superintendent, Facilities Planning that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Special Tax Fund.

Investments

Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the direction of the District in accordance with the limitations set forth in the Indenture only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments will be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Reserve Fund and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, Notwithstanding anything herein to the contrary, amounts in the Capitalized Interest Subaccount on the Delivery Date for the Bonds and any Parity Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

Moneys in the Interest Account, the Principal Account, the Redemption Account and the Reserve Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

In the absence of written investment directions from the District, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (4) of the definition thereof.

Covenants of the District

In addition to the covenants described in the body of this Official Statement, so long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District has made 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 and desirable to secure the Bonds and Parity 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 and other amounts deposited to the Special Tax Fund:

Punctual Payment: Against Encumbrances. The District covenants that it will receive all Special Taxes in trust for the Owners and deposit all Special Taxes with the Fiscal Agent immediately upon their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall 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 and Parity 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 the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and

Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

<u>Federal Tax Covenants</u>. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Parity Bonds issued on a tax-exempt basis for federal income tax purposes and the Bonds will not be adversely affected for federal income tax purposes, 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:

- (a) <u>Private Activity</u>. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code;
- (b) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity 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 or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code;
- (c) <u>Federal Guaranty</u>. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code;
- (d) <u>Information Reporting</u>. 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;
- Parity 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 or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes 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 and any applicable Parity Bonds; and

- (f) <u>Miscellaneous</u>. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein, including payment of any rebate amounts owing to the United States on the Bonds.
- (g) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity 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.

The Fiscal Agent

U.S. Bank Trust National Association shall be the Fiscal Agent for the Bonds and any Parity Bonds unless and until another Fiscal Agent is appointed by the District under the Indenture. The District may, at any time, appoint a successor Fiscal Agent satisfying the requirements set forth below for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Indenture and to allocate, use and apply the same as provided in the Indenture.

The Fiscal Agent is authorized by the Indenture to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Indenture above, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Indenture. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Fiscal Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Indenture.

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Indenture, and indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities, including, without limitation, fees and expenses of its attorneys, not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Indenture. The foregoing obligation of the District to indemnify the Fiscal Agent shall survive the removal or resignation of the Fiscal Agent or the discharge of the Bonds.

Amendment of or Supplement to the Indenture

Supplemental Indentures or Orders Not Requiring Bondowner Consent

The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, provided that notice shall be given to the Bond Insurer, with copies of such Supplemental indenture delivered to the Bond Insurer and Standard & Poor's, adopt Supplemental Indentures 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 in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to 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 or which further secure Bond or Parity Bond payments;
- (c) 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;
- (d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, 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 or any Parity Bonds then Outstanding;
- (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 Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Indenture; or
- (f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

Supplemental Indentures or Orders Requiring Bondowner Consent

Exclusive of the Supplemental Indentures described above, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right, subject to receipt of the prior written consent of the Bond Insurer so long as it is not in default under the Bond Insurance Policy with copies of such Supplemental Indenture delivered to the Bond Insurer and Standard & Poor's, to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing 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 or Parity Bond, (b) a reduction in the principal amount of, or redemption

premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture 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 Supplemental Indenture and shall state that a copy thereof is on file at the office of the Fiscal Agent for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. 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 a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity 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 adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments.

Notation of Bonds or Parity Bonds, Delivery of Amended Bonds or Parity Bonds

After the effective date of any action taken as above provided, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity 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 or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity 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 of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

Events of Default: Remedies

For all purposes of the provisions of the Indenture relating to events of default and remedies, the Bond Insurer shall be deemed to be the sole holder of the Bonds so long as the Bond Insurer has not failed to comply with its payment obligations under the Bond Insurance Policy.

Events 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 or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or
- (c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

Remedies

Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

- (a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;
- (b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- (c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in any provision of the Indenture, the Bonds or any Parity 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 and any Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other amounts 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 or any Parity 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 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 herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

In case the moneys held by the Fiscal Agent after an event of default pursuant to (a) or (b) above shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity 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 or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to 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 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 principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of the Indenture if such Bond or Parity 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 (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity 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, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax

Fund (exclusive of the Administrative Expense Account) 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 or Parity Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity 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 or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant 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, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture.

Upon a defeasance, the Fiscal Agent, upon request of the District, will release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental 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 under the Indenture of all Outstanding Bonds and Parity Bonds, the Fiscal Agent will 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 and Parity Bonds when due. The Fiscal Agent will, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Parity Bonds

Conditions for the Issuance of Parity Bonds and Other Additional District Indebtedness. The District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture for any purposes authorized under the Act. Parity Bonds may be issued subject to the following additional specific conditions, which are 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 Supplemental Indenture then in effect and a certificate of the District to that effect shall be 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 and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which will specify the following:
 - (i) 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 payment of all costs and the funding of all reserves incidental to or connected with such refunding;
 - (ii) The authorized principal amount of such Parity Bonds;
 - (iii) The date and the maturity date or dates of such Parity Bonds; provided that (x) each maturity date shall fall on a September 1, (y) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (z) 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;
 - (iv) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;
 - (v) The denominations and method of numbering of such Parity Bonds,
 - (vi) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds:
 - (vii) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;
 - (viii) The form of such Parity Bonds; and
 - (ix) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.
- (c) The District has 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 Fiscal Agent shall be directed by the District to accept any of such documents bearing a prior date):
 - (i) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds:
 - (ii) A written request of the District as to the delivery of such Parity Bonds;

- An opinion of Bond Counsel and/or general counsel to the District to the (iii) effect that (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (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 Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; 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 the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;
- (iv) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;
- (v) A certificate from one or more Independent Financial Consultants and/or a Certificate of the Special Tax Administrator which, when taken together, certify that:
 - (A) the Value of District Property, with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property as of the date of valuation, is at least 3 times the sum of the aggregate principal amount of Outstanding Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt with respect to all taxable property in the District;
 - (B) the Value of Developed Property is at least 3 ½ times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Developed Property (collectively, the "Parity Debt for Developed Property"). For this purpose, there will be allocated to the Developed Property the largest principal amount of Parity Debt for Developed Property that results in (1) the maximum Special Taxes that may be levied on Developed Property (not including any parcels of Developed Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Developed Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Property for such Fiscal Year of taxation and (2) a Value of Developed

Property at least 3½ times greater than the sum of Parity Debt for Developed Property plus Overlapping Debt allocable to Developed Property;

- the Value of Near Term Property is at least 3 times the sum of the (C) Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Near Term Property (collectively, the "Parity Debt for Near Term Property"). For this purpose, there will be allocated to the Near Term Property the largest principal amount of Parity Debt for Near Term Property that results in (1) the maximum Special Taxes that may be levied on Near Term Property (not including any parcels of Near Term Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Near Term Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Property for such Fiscal Year of taxation and (2) a Value of Near Term Property at least 3 times greater than the sum of Parity Debt for Near Term Property plus Overlapping Debt allocable to Near Term Property, and
- (D) the Value of Undeveloped Property with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property is at least 21/2 times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the Outstanding Bonds and Parity Bonds which is allocable to the Undeveloped Property (collectively, the "Parity Debt for Undeveloped Property"). For this purpose, there will be allocated to the Undeveloped Property the largest principal amount of Parity Debt for Undeveloped Property that results in (1) the maximum Special Taxes that may be levied on Undeveloped Property (not including any parcels of Undeveloped Property with delinquent Special Taxes and assuming taxation as "Undeveloped Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Parity Debt for Undeveloped Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Undeveloped Property for such Fiscal Year of taxation and (2) a Value of Undeveloped Property at least 21/2 times greater than the sum of Parity Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property;

provided, however, that no parcel of property may be included in any of the foregoing determinations if there is, at the time of any such determination, a delinquency in the payment of any ad valorem real property taxes or Special Taxes levied on such parcel. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for each of Developed Property, Near Term Property and Undeveloped Property, respectively, for the last Fiscal Year ending prior to the date of calculation of Parity Debt.

The amount of Parity Bonds permitted to be issued shall be the largest integral multiple of \$5,000 that is not greater than the remainder of (a) the sum of (x) the Parity Debt for Developed Property, as specified in the Certificate of the Special

Tax Administrator delivered pursuant to (B) above, (y) the Parity Debt for Near Term Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (C) above, plus (z) the Parity Debt for Undeveloped Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (D) above, less (b) the then aggregate principal amount of Outstanding Bonds.

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

<u>Conditions for the Issuance of Improvement Area Bonds</u>. The District may at any time issue bonds of an improvement area formed to include all or a portion of the real property within the District (the "Improvement Area") subject to the following additional specific conditions, which are a condition precedent to the issuance of such improvement area bonds:

A certificate from one or more Independent Financial Consultants and/or a Certificate of the Special Administrator which, when taken together, certify that:

- (A) the value of all property in the Improvement Area subject to the Improvement Area special tax, with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property as of the date of valuation is at least 3 times the sum of the aggregate principal amount of allocable outstanding Improvement Area bonds, Improvement Area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds, in each case allocable to such property, and the Overlapping Debt with respect to all taxable property in the improvement area;
- the value of property in the Improvement Area subject to the Improvement Area special tax for which a building permit has been issued ("Developed Improvement Area Property") is at least 31/2 times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the outstanding Improvement Area bonds, Improvement Area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds which is allocable to the Developed Improvement Area Property (collectively, the "Debt for Developed Property"). For this purpose, there will be allocated to the Developed Improvement Area Property the largest principal amount of Debt for Developed Property that results in (1) the maximum special taxes that may be levied on Developed Improvement Area Property (not including any parcels of Developed Improvement Area Property with delinquent special taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of annual debt service on such Debt for Developed Improvement Area Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Improvement Area Property for such Fiscal Year of taxation and (2) a value of Improvement Area Developed Property at least 31/2 times greater than the sum of Debt for Developed Property plus Overlapping Debt allocable to Developed Improvement Area Property:
- (C) the value of Near Term Property in the Improvement Area is at least three (3) times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the outstanding Improvement Area bonds, improvement area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds, in each case

which are allocable to the Near Term Property in the Improvement Area (collectively, the "Debt for Near Term Property"). For this purpose, there will be allocated to the Near Term Property in the Improvement Area the largest principal amount of Debt for Near Term Property that results in (1) the maximum special taxes that may be levied on Near Term Property in the Improvement Area (not including any parcels of Near Term Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Debt for Near Term Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Near Term Property for such Fiscal Year of taxation and (2) a Value of Near Term Property at least 3 times greater than the sum of all Debt for Near Term Property plus Overlapping Debt allocable to Near Term Property; and

the Value of Undeveloped Property is at least 2½ times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the outstanding Improvement Area bonds. Improvement Area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds, in each case which is allocable to the Undeveloped Property (collectively, the "Debt for Undeveloped Property"). For this purpose, there will be allocated to the Undeveloped Property in the Improvement Area the largest principal amount of Debt for Undeveloped Property that results in (1) the maximum Special Taxes that may be levied on Undeveloped Property in the Improvement Area (not including any parcels of Undeveloped Property with delinquent Special Taxes and assuming taxation as "Undeveloped Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Debt for Undeveloped Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Undeveloped Property in the Improvement Area for such Fiscal Year of taxation and (2) a Value of Undeveloped Property in the Improvement Area at least 2½ times greater than the sum of Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property in the Improvement Area:

provided, however, that no parcel of property may be included in any of the foregoing determinations if there is, at the time of any such determination, a delinquency in the payment of any ad valorem real property taxes or Special Taxes levied on such parcel. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for each of Developed Property, Near Term Property and Undeveloped Property, respectively, for the last Fiscal Year ending prior to the date of calculation of Parity Debt.

The amount of Improvement Area bonds permitted to be issued shall be the largest integral multiple of \$5,000 that is not greater than the remainder of (a) the sum of (w) the amount of improvement area bonds proposed to be issued that will be escrowed, (x) the Debt for Developed Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (B) above, (y) the Debt for Near Term Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (C) above, and (z) the Debt for Undeveloped Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (D) above, less (b) the then aggregate principal amount of then outstanding Improvement Area bonds, Outstanding Bonds and Parity Bonds.

APPENDIX E

FORM OF BOND COUNSEL'S OPINION

October 31, 2001

Board of Trustees Capistrano Unified School District San Juan Capistrano, California

Re: \$23,050,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega), Series 2001 Special Tax Bonds

Honorable Members of the Board of Trustees:

We have examined the Constitution and laws of the State of California, a certified record of the proceedings of the Capistrano Unified School District (the "School District") taken in connection with the formation of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and the authorization and issuance of the District's Series 2001 Special Tax Bonds in the aggregate principal amount of \$23,050,000 (the "Bonds") and such other information and documents as we may consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the School District, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 et seq of the Government Code of the State of California, Resolution No. 0102-41 adopted by the Board of Trustees of the School District, acting in its capacity as the legislative body of the District, on October 1, 2001, and a Bond Indenture between the District and U.S. Bank Trust National Association, as Fiscal Agent, dated as of October 1, 2001 (the "Indenture"). All capitalized terms not defined herein shall have the meanings set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing March 1, 2002, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all other matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and

Board of Trustees Capistrano Unified School District October 31, 2001 Page Two

binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except as the same 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; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses. The Bonds are limited obligations of the District but are not a debt of the School District, the County of Orange, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the District, the School District, the County of Orange, the State of California, or any other political subdivision is pledged to the payment thereof.

- The Indenture has been duly executed and delivered by the District. The Indenture creates a valid pledge of, and the Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture, except as the same 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.
- (3) Under existing statutes, regulations, rulings and judicial decisions, 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 calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum tax liability of corporations.
 - (4) Interest on the Bonds is exempt from State of California personal income tax.
- of the Bonds of a maturity are sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. Original issue discount that accrues to the Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (as described in paragraph 3 above), and is exempt from State of California personal income tax.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the Bonds are subject to the condition that the District and the School District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest and original issue discount will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest and original issue discount on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the

Board of Trustees Capistrano Unified School District October 31, 2001 Page Three

Bonds. The District and the School District have covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4) and (5) above, we express no opinion as to any tax consequences related to the Bonds.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

The Indenture and the Tax Certificate executed by the District with respect to the Bonds as of the date hereof permit certain actions to be taken or omitted if a favorable opinion of Bond Counsel is provided with respect thereto. We express no opinion as to the exclusion from gross income of interest and original issue discount on the Bonds for federal income tax purposes on and after the date on which any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to practice law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds, and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted.

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APPENDIX F

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement") is executed and delivered by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "Issuer") and U.S. Bank Trust National Association, as Fiscal Agent and as dissemination agent, in connection with the issuance and delivery by the Issuer of its Series 2001 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution of the Issuer, adopted on October 1, 2001, approving the issuance of the Bonds and that certain Bond Indenture executed pursuant thereto (the "Indenture"). The Issuer and U.S. Bank Trust National Association, as Fiscal Agent and dissemination agent, covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and U.S. Bank Trust National Association for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule. The Dissemination Agent has entered into this Disclosure Agreement at the express direction of the Issuer evidenced by the Issuer's signature to this Disclosure Agreement. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Disclosure Agreement.

SECTION 2. <u>Definitions</u>. 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.

"Disclosure Representative" shall mean the Assistant Superintendent, Facilities Planning, of the Capistrano 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, U.S. Bank Trust 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, NJ 08542-0840 (609) 279-3225 FAX (609) 279-5962

Internet address: Munis@bloomberg.com

Standard & Poor's

J.J. Kenny Repository

55 Water Street, 45th Floor

New York, NY 10041

(212) 438-4595

FAX (212) 438-3975

Internet address: nrmsir_repository@sandp.com

DPC Data Inc.
NRMSIR
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701
FAX (201) 947-0107
Internet address: nrmsir@dpcdata.com

Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
(212) 771-6999
FAX (212) 771-7390
Internet address: NRMSIR @interactivedata.com

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

"Repository" shall mean each National Repository and each State Repository.

PaineWebber Inc. whose address is: 777 South Figueroa Street, 50th Floor, Los Angeles, CA 90017.

"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 upon written direction to, not later than six (6) months after the end of the Issuer's fiscal year, commencing with the report for the fiscal year ending June 30, 2001, 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 twelve (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. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

- (b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).
- (c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the 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 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. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.
- (e) The Issuer shall, or if received by the Dissemination Agent, the Dissemination Agent shall, deliver a copy of each Annual Report to the Participating Underwriter at the time that the Annual Report is provided to the Repositories in accordance with this Section.

SECTION 4. <u>Content of Annual Reports.</u> The Issuer's Annual Report shall contain or include by reference the following:

- (1) The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended;
- (2) An update of the information contained in the table contained under the heading "SECURITY FOR THE BONDS" in the Official Statement for the Bonds in the section entitled "Direct and Overlapping Debt" (but only to the extent that additional debt secured by the payment of taxes or assessments levied on parcels within the District has been issued or incurred);

- (3) An update of the information contained in the tables in the section under that heading entitled "Summary of Appraised Values and Certain Public Debt" (based on assessed values and the actual tax levy for the current fiscal year in the form of a table or tables showing categorical value-to-lien ratios for all of the taxable property in the District);
- (4) A table providing delinquency information including total Special Tax levy, taxes delinquent as of June 30 of the fiscal year in which Special Taxes were levied, and the current amount delinquent:
- (5) The date and amount of expenditures from the Project Account, the date and amount of any withdrawal from the Reserve Account of the Special Tax Fund and the date and amount of any withdrawal of Bond amounts from any investment agreement due to downgrade in the rating of the provider thereof and a description of the reinvestment of such amounts:
- (6) The number of building permits issued for the construction of single family homes on property within the District in the preceding fiscal year and prior to November 1 of the calendar year in which such fiscal year ends;
- (7) The number of single family homes within the District for which the Talega Joint Planning Authority, the City of San Clemente or the County or Orange issued permits or gave approvals permitting occupancy by homeowners in the preceding fiscal year and prior to November 1 of the calendar year in which such fiscal year ends:
- (8) Information regarding the number of parcels of property in the District as to which the County Assessor's assessment roll for the current fiscal year shows a change in ownership from the home builder to a homeowner as compared to the assessment roll for the preceding fiscal year and the total number of parcels of property in the District which according to the assessment roll are owned by persons other than a home builder;
- (9) Information regarding the full cash value of all of the land and improvements, as determined by the County Assessor within the District, as shown on the Assessor's assessment roll ("assessed value"), for the fiscal year as to which the Annual Report is being filed, including the number of lots for which the assessed value is for land only and the number of lots for which the assessed value is for both land and improvements and the total amount of such assessed value for each such category. For all fiscal years after the first fiscal year in which the assessed value for all lots in the District includes both land and improvements, the Annual Report shall include only the total amount of the assessed value for all lots in the District;
- (10) An update on the status of the construction of the school facilities to be financed with the proceeds of the Bonds;
- (11) Any change to the Rate and Method of Apportionment of Special Tax for the District set forth in Appendix "C" to the Official Statement;
- (12) Information regarding proceedings for the designation of any improvement area of the District or the formation of any community facilities district or assessment district that includes a portion of the property in the District and the authorization of additional bonded indebtedness for the District or bonded indebtedness for any such community facilities district or assessment district to finance public facilities and, if any such bonds are issued, information regarding the issuance of the bonds, the amount thereof and the facilities which will be financed with the proceeds of such bonds; and

(13) All annual information required to be filed by the District with the California Debt and Investment Advisory Commission pursuant to Section 53359.5(b) of the Act and relating generally to outstanding Bond amounts, Indenture fund balances, assessed values, special tax delinquencies and foreclosure information which has not been reported pursuant to the requirements above.

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 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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the 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) non-payment related defaults;
 - (3) unscheduled draws on the Reserve Account 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 provider of such letter of credit or municipal bond insurance policy 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 Bonds;

- (9) defeasances;
- (10) any release, substitution, or sale of property securing repayment of the Bonds; and
- (11) rating changes.
- (b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.
- (c) 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 (e).
- (d) If 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 (e).
- (e) 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) the National Repositories, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) 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 (e) prior to the occurrence of such Listed Event.
- (f) The Issuer 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. <u>Termination of Reporting Obligation</u>. The obligations 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. <u>Dissemination Agent.</u> The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank Trust National Association. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Issuer in a timely manner and in a form suitable for filing.
- SECTION 8. <u>Amendment</u>. (a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners of the Bonds, 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) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel expert in federal securities laws, addressed to the Issuer, 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 of the Bonds, 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 at least 25% of the outstanding Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, 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 hereunder.
- (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 effect 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. <u>Additional Information</u>. 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 Disclosure 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. <u>Default.</u> In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any 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 to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. <u>Duties: Immunity and Liability of Fiscal Agent and Dissemination Agent</u>. Section 7.4 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 shall be entitled to the same protections, limitations from liability and indemnities 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 no other duties shall be implied hereunder, and the Issuer agrees to indemnify and save the Dissemination Agent and the Fiscal Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities (whether or not litigated) which either may incur arising out of or in the exercise or performance of the powers and duties provided 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 have no responsibility or liability whatsoever for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The Dissemination Agent shall not be deemed to be the agent of or fiduciary to the Issuer. 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 and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Owners of the Bonds, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and the 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 hereunder, 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. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

Disclosure Representative:

Assistant Superintendent

Facilities Planning

Capistrano Unified School District

32972 Calle Perfecto

San Juan Capistrano, CA 92675

Dissemination Agent

U.S. Bank Trust National Association

550 South Hope Street, Suite 500

Los Angeles, CA 90071 Attn: Corporate Trust Fiscal Agent:

U.S. Bank Trust National Association 550 South Hope Street, Suite 500 Los Angeles, CA 90071 Attn: Corporate Trust

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: October 31, 2001

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF

, , , , , , , , , , , , , , , , , , ,	THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)
	By: Assistant Superintendent, Facilities Planning
Date: October 31, 2001	U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent and Fiscal Agent
	By: Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name	of Issuer:	Community Facilities District No. 90-2 of the
		Capistrano Unified School District (Talega)
Name	of Bond Issue:	Community Facilities District No. 90-2 of the
		Capistrano Unified School District (Talega)
		Series 2001 Special Tax Bonds
Date o	f Issuance:	October 31, 2001
Bonds betwee	District (Talega) (the "D as required by Section 3 c n the District and U.S. Ba	GIVEN that Community Facilities District No. 90-2 of the Capistrano Unified District") has not provided an Annual Report with respect to the above-named of the Continuing Disclosure Agreement, dated as of October 31, 2001, by and ank Trust National Association, as Fiscal Agent and dissemination agent. The qual Report will be filed by
Dated:		
		U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent
cc:	Community Facilities D	District No. 90-2 of the Capistrano Unified School District (Talega)

APPENDIX G

DEVELOPER DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), is executed and entered into as of October 31, 2001, by and among U.S. Bank Trust National Association, a banking corporation organized and existing under and by virtue of the laws of the State of California (the "Bank"), in its capacity as Dissemination Agent (the "Dissemination Agent") and in its capacity as Fiscal Agent (the "Fiscal Agent"), and Talega Associates, LLC, a limited liability company organized and existing under and by virtue of the laws of the State of Delaware (the "Developer");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of October 1, 2001 (the "Indenture"), by and between Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and the Fiscal Agent, the District has issued the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2001 Special Tax Bonds (the "Bonds"), in the aggregate principal amount of \$23,050,000.

WHEREAS, the Bonds are payable from and secured by special taxes levied on certain of the property within the District;

WHEREAS, the Developer is the owner of a substantial portion of the property within the District and is developing such property as a master planned community; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Developer and the Bank for the benefit of the owners and beneficial owners of the Bonds and in order to assist the underwriters of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. <u>Definitions</u>. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 25% or more of the outstanding voting securities of such other Person, (b) any Person 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

"Annual Report" means any Annual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is the first day of the fifth month after the end of the Developer's fiscal year, which date, as of the date of this Disclosure Agreement, is May 1.

"Assumption Agreement" means an agreement between a Major Developer, or an Affiliate thereof, and the Fiscal Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide annual reports and notices of significant events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

"Development Plan" means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to such Major Developer's Property in order for such Property to reach the Planned Development Stage, the time frame in which such improvements are intended to be made and the estimated costs of such improvements, the Developer's Development Plan, as of the date hereof, is described in the Official Statement under the caption "THE DEVELOPMENT PROJECT - Development Plan."

"Disclosure Representative" means the Chief Financial Officer of the Developer, or such other person as the Developer shall designate in writing to the Fiscal Agent from time to time.

"Dissemination Agent" means the Bank, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Fiscal Agent a written acceptance of such designation.

"Event of Bankruptcy" means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person's debts or obligations, or offers to such Person's creditors to effect a composition or extension of time to pay such Person's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of sixty (60) days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person's creditors.

"Financing Plan" means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan; the Developer's Financing Plan, as of the date hereof, is described in the Official Statement under the caption "THE DEVELOPMENT PROJECT - Plan for Financing Development."

"Financial Statements" means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business or a purchaser of property from such Major Developer) identified in such Major Developer's Financing Plan as a source of funding for such Major Developer's Development Plan or, where such funding by such entity, enterprise, fund, account or other person is to be provided or is guaranteed by another entity, enterprise, fund, account or other person, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of such other entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business or a purchaser of property from such Major Developer), provided that, if such financial statements or reports are otherwise prepared as audited financial statements or reports, then Financial Statements means such audited financial statements or reports.

"Listed Events" means any of the events listed in Section 4(a) hereof.

"Major Developer" means, as of any date, any Property Owner, including the Developer, that owns Property that has not reached the Planned Development Stage that, together with Property that has not reached the Planned Development Stage owned by Affiliates of such Property Owner, is subject to 20% or more of the Special Tax levy for the then current Fiscal Year.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" means the Official Statement, dated October 19, 2001, relating to the Bonds.

"Participating Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds. The Participating Underwriter is UBS PaineWebber Inc. whose address is: 777 South Figueroa Street, 50th Floor, Los Angeles, CA 90017.

"Person" means an individual, a corporation, a partnership, an association, a limited liability company, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

"Planned Development Stage" means, with respect to any portion of the Property, the stage at which rough grading has been substantially completed and major backbone infrastructure has been brought to the edge of the parcel constituting such portion of the Property.

"Property" means the real property within the boundaries of the District that is not exempt from the Special Taxes.

"Property Owner" means any Person that owns a fee interest in any Property.

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Semiannual Report" means any Semiannual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

"Semiannual Report Date" means the date in each year that is the first day of the eleventh month after the end of the Developer's fiscal year, which date, as of the date of this Disclosure Agreement, is November 1.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. <u>Provision of Annual Reports and Semiannual Reports</u>. (a) The Developer shall, or, upon receipt of the Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing May 1, 2002. The Developer shall, or, upon receipt of the Semiannual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository a Semiannual

Report which is consistent with the requirements of Section 3 hereof, not later than the Semiannual Report Date, commencing November 1, 2002. The Annual Report or Semiannual 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 3 hereof; provided, however, that the audited financial statements of the Developer, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Developer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(b) hereof.

- (b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report or the Semiannual Report to the Repositories, the Developer shall provide the Annual Report or the Semiannual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Fiscal Agent has not received a copy of the Annual Report or the Semiannual Report, the Fiscal Agent shall contact the Disclosure Representative and the Dissemination Agent to inquire if the Developer is in compliance with the first sentence of this subsection (b).
- (c) If the Fiscal Agent is unable to verify that an Annual Report or a Semiannual Report has been provided to the Repositories by the date required in subsection (a), the Fiscal Agent shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, 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 or the Semiannual Report the name and address of each National Repository and each State Repository, if any;
- (ii) provide any Annual Report or Semiannual Report received by it to each Repository, as provided herein; and
- (iii) file a report with the Developer and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report or the Semiannual 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.
- (e) The Developer shall, or if received by the Dissemination Agent, the Dissemination shall, provide an Annual Report or a Semiannual Report to the Participating Underwriter at the time such Annual Report or Semiannual Report is provided to the Repositories in accordance with this Section.
- Section 3. Content of Annual Reports and Semiannual Reports. The Developer's Annual Report and Semiannual Report shall contain or incorporate by reference the following (except that clause (a) below pertains only to the Annual Reports):
- (a) Financial Statements for each Major Developer prepared in accordance with generally accepted accounting principles, as in effect from time to time. If audited Financial Statements are prepared, and such audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited Financial Statements, and the audited Financial Statements shall be filed in the same manner as the Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

- (b) The following information with respect to each Major Developer:
- (i) If information regarding such Major Developer has not previously been included in an Annual Report, a Semiannual Report or in the Official Statement, the Development Plan of such Major Developer or, if information regarding such Major Developer has previously been included in an Annual Report or in the Official Statement, a description of the progress made in the Development Plan of such Major Developer since the date of such information and a description of any material changes in such Development Plan and the causes or rationale for such changes.
- (ii) If information regarding such Major Developer has not previously been included in an Annual Report, a Semiannual Report or in the Official Statement, the Financing Plan of such Major Developer or, if information regarding such Major Developer has previously been included in an Annual Report, a Semiannual Report or in the Official Statement, a description of any material changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.
- (iii) A description of any sales of portions of such Major Developer's Property (other than to individual home buyers) during the fiscal year covered by such Annual Report or, in the case of a Semiannual Report, during the portion of the fiscal year covered by such Semiannual Report, including the identification of each buyer (other than such a home buyer) and the number of acres sold; provided, however, that sales of five (5) or fewer acres may be aggregated for the purpose of such description.
- (iv) A description of how many acres of the Property were owned by such Major Developer as of the end of the fiscal year covered by such Annual Report or in the case of a Semiannual Report, at the end of the portion of the fiscal year covered by such Semiannual Report, how many acres of such Major Developer's Property reached the Planned Development Stage during such fiscal year and how many acres of such Major Developer's Property had not reached the Planned Development Stage as of the end of such fiscal year or such portion of such fiscal year.
- (v) Information regarding the status of the issuance of the 404 Permit and the other permits and approvals discussed under the heading "404 Permit and Streambed Alteration Agreement" in the section of the Official Statement entitled "THE DEVELOPMENT PROJECT."
- (vi) Information regarding proceedings for the designation of any improvement area of the District or the formation of any community facilities district or assessment district that includes a portion of the property in the District and the authorization of additional bonded indebtedness for the District or bonded indebtedness for any such community facilities district or assessment district to finance public facilities and, if any such bonds are issued, information regarding the issuance of the bonds, the amount thereof and the facilities which will be financed with the proceeds of such bonds.
- (vii) An update of the status of any previously reported Listed Event described in Section 4 hereof.
- (c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Major Developers that are Affiliates of each other may file a single Annual Report or Semiannual Report covering all such entities. Any or all of the items listed above may be included by specific reference to

other documents 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 Developer shall clearly identify each such other document so included by reference.

- Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section 4, the Developer shall promptly give, or cause to be given notice of the occurrence of any of the following events with respect to each Major Developer:
- (i) Any failure of such Major Developer, or any Affiliate of such Major Developer, to pay when due general property taxes, special taxes or assessments (including any assessment installment) with respect to its Property.
- (ii) Any material payment default by such Major Developer or any Affiliate of such Major Developer on any loan secured by such Major Developer's Property which is beyond any applicable cure period for such loan.
- (iii) The occurrence of an Event of Bankruptcy with respect to such Major Developer, or any Affiliate of such Major Developer, that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay Special Taxes when due.
- (b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly notify the Dissemination Agent, the Fiscal Agent and the District in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (c). The Developer shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.
- (c) If the Dissemination Agent has been instructed by the Developer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriters.
- Section 5. <u>Assumption of Obligations</u>. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement.

Section 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement shall terminate upon the earliest to occur of (a) the date on which no Property Owner is a Major Developer, or (b) the date on which (i) the Developer is no longer a Major Developer and (ii) the Developer no longer has any obligations under this Disclosure Agreement with respect to any remaining Property as a result of such obligations having been assumed under one or more Assumption Agreements entered into pursuant to Section 5 hereof, or (c) the date on which all of the Bonds have been legally defeased, redeemed, or paid in full. The Developer's obligations under this Disclosure Agreement with respect to a Major Developer shall terminate upon the earliest to occur of (x) the date on which such Major Developer is no longer a Major Developer, as defined herein, or (y) the date on which the Developer's obligations with respect to such Major Developer are assumed under an Assumption Agreement entered into pursuant to Section 5 hereof, provided

however, upon the occurrence of either of the events described in clauses (x) and (y), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. <u>Dissemination Agent</u>. The Developer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Developer and the Fiscal Agent. The Dissemination Agent shall have no duty to prepare any Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Developer in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall be the Dissemination Agent. If the Dissemination Agent is other than the Fiscal Agent, the Developer shall be responsible for paying the fees and expenses of the Dissemination Agent.

Section 8. <u>Amendment: Waiver</u>. Notwithstanding any other provision of this Disclosure Agreement, the Developer, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Developer, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver (i) is approved by owners of sixty percent (60%) of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of the owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Reports is amended pursuant to the provisions hereof, the first Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the effect of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing Financial Statements, the annual financial information for the year in which the change is made shall present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the effect of the change in the accounting principles on the presentation of the Financial Statements or information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations, including

its obligation to pay debt service on the Bonds. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4 hereof.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Developer 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 Developer 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 Developer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event. It is expressly understood and agreed that the Dissemination Agent shall have no duty whatsoever to commence or continue, at any time, any due diligence (applying the Developer's interpretation to such term) in connection with any matter hereunder and further, to the extent the Dissemination Agent shall undertake to obtain information, such action shall not, under any circumstances, be deemed to increase the scope of the Dissemination Agent's duties hereunder or under any financing document.

Section 10. <u>Default.</u> In the event of a failure of the Developer or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or 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 Developer or the Fiscal Agent, as the case may be, 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 Developer or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties: Immunity and Liability of Fiscal Agent and Dissemination Agent. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. The Dissemination Agent has entered into this Disclosure Agreement at the direction of the Issuer as evidenced by the Issuer's signature to this Disclosure Agreement. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose under this Disclosure Agreement other than the performance of its duties hereunder. The Developer agrees to indemnify and save each of the Fiscal Agent and the Dissemination Agent, and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it or they may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability (whether or not litigated), but excluding liabilities due to the Fiscal Agent's or the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no responsibility or liability for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Developer as to the materiality of any event for purposes of Section 4 hereof. Neither the Fiscal Agent nor the Dissemination Agent makes any representation as to the sufficiency of this Disclosure

Agreement for purposes of the Rule. The Developer's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters 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. <u>Notices</u>. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Developer: Talega Associates, LLC

951 Calle Negocio, Suite D San Clemente, CA 92673

Dissemination Agent: U.S. Bank Trust National Association

550 South Hope Street, Suite 500

Los Angeles, CA 90071 Attn: Corporate Trust

Fiscal Agent: U.S. Bank Trust National Association

550 South Hope Street, Suite 500

Los Angeles, CA 90071 Attn: Corporate Trust

Section 14. <u>Counterparts</u>. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 15. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

TALEGA ASSOCIATES, LLC, a Delaware limited liability company
By:
Title:
U.S. BANK TRUST NATIONAL ASSOCIATION, as Fiscal Agent
Authorized Signatory
U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent
By:
Authorized Signatory

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)		
Name of Bond Issue:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2001 Special Tax Bonds		
Date of Issuance:	October 31, 2001		
NOTICE IS HEREBY GIVEN that Talega Associates, LLC (the "Developer") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of October 31, 2001, by and among U.S. Bank Trust National Association, in its capacity as Fiscal Agent and in its capacity as Dissemination Agent, and the Developer. The Developer anticipates that the Annual Report will be filed by			
Dated:	U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent, on behalf of Talega Associates, LLC		

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DO NOT STAPLE THIS FORM

1 S R B		FORM	G - 36 (0 S) -	FOR OFFICIA	AL STATEMENTS
1. [X] A (a 2.[] AN (a 2.[] AN (a 3. IF MATER THAN ONE wrap, even	D) DATE RECEIVED FROM ISSUER: AMENDED OFFICIAL STATEMENT W D) DATE RECEIVED FROM ISSUER: IALS SUBMITTED WITH THIS FORM DOCUMENT (e.g. preliminary of en if physically attached), F	ATING TO A PRIMARY OFFERING OF 10/29/2001 WITHIN THE MEANING OF RULE G- M CONSIST OF MORE C. Official statement and PLEASE CHECK HERE: []	(b) DATE SENT TO 36(d) (enclose two _ (b) DATE SENT TO IF THIS FORM AMEN WITHOUT CHANGING CHECK HERE (inclu	MSRB: 10/29/2001 (2) copies) MSRB: DS PREVIOUSLY SUBMIT MATERIALS SUBMITTED, de copy of original	TED FORM
SECTION II -	IDENTIFICATION OF ISSUE(S) st be listed separately. is needed to list additional COMMUNITY FACILITIES DISTRI SERIES 2001 SPECIAL TAX BON	ICT NO 90-2 OF THE CAPISTRANO	n separate sheet an D UNIFIED SCHOOL DI	nd check here: [] STRICT (TALEGA)	STATE: CA DATED DATE: 10/31/2001
IAME*OF SSUER SESCRIPTION OF ISSUE					STATE: DATED DATE:
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The information	UNDERWRITER ASSESSMENT INFORM on will be used by the MSRB t rwriter will be sent an invoi	MATION to compute any rule A-13 unde ice if a rule A-13 assessment	rwriting assessmen is due on the off	ering.	
3. TOTAL PAI 2. PAR AMOUNT 3. CHECK ALI	L THAT APPLY	OFFERING \$ 23,050,000 N (if different from the amou ereof, all securities in this		above): \$	SEC REG. NUMBER: 8-16267 er of such securities or
it: ma 2.[] At it ma	s designated agent for redemp turity, earlier redemption, o the option of the holder the s designated agent for redemp turity, earlier redemption, o	ption or purchase at par valu or purchase by the issuer or ereof, all securities in this ption or purchase at par valu or purchase by the issuer or	ue of more at least its designated age coffering may be t ue of more at least its designated age	as frequently as event. Tendered to the issue as frequently as event.	very nine months until er of such securities or very two years until
3.[] Th	is offering is exempt from SI	EC rule 15c2-12 under section mpt from the requirements of	n (c)(1) of that ru	ile. Section (c)(1)	of SEC rule 15c2-12 ve authorized

denominations of \$100,000 or more and 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

4SRB 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 THE ISSUE(S)

A. CUSIP-9 NUMBER	(S OF THE ISSUE(S)		success Number	Maturity Date	CUSIP Number
Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	•	139705EW3
•	139705EU7	09/01/2004	139705EV5	09/01/2005	139703EM3
09/01/2003	,	• • • • • • • • • • • • • • • • • • • •	139705EY9	09/01/2008	139705EZ6
09/01/2006	139705EX1	09/01/2007	1071.00	09/01/2011	139705FC6
09/01/2009	139705FA0	09/01/2010	139705FB8		1271 221 22
	120,000	09/01/2013	139705FE2	09/01/2014	139705FF9
09/01/2012	139705FD4	*	470705545	09/01/2017	139705FJ1
09/01/2015	139705FG7	09/01/2016	139705FH5	, - ,	139705FM4
***	139705FK8	09/01/2022	139705FL6	09/01/2031	1341021H4
09/01/2018	139703780		UCID-OU CHECK HERE A	IND LIST THEM BELOW:	[]

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: ___

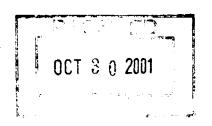
State the reason why such securities have not been assigned a "CUSIP-9":

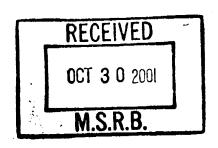
C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: [] State the reason why such securities are ineligible for CUSIP number assignment:

.... SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT

ABOVE AND THAT ALL OTHER WILL BE PUBLICLY DISSEMINATED.





ENTIFIED IN SECTION IV ABOVE

e managing underwriter)

is form and

FAX:

(Include phone and fax numbers at which you are mo accompanying materials)

NOTE: 1. Please refer to form G-36 Manual for detail ins

2. All items on this form must be completed or note CORRECTION.

3. Two properly completed copies of this form and two be included to be considered sent to the MSRB with.

4. Submit this form and accompanying materials to MSRB 22314.

STURNED FOR

or amended official statement must

_.e G-36.

,stem, 1900 Duke Street, Suite 600, Alexandria, Virginia

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements discussed herein, interest and original issue discount on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See "TAX MATTERS" herein.

STATE OF CALIFORNIA

COUNTY OF ORANGE

RATINGS: UNRATED

\$17,605,000 COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) 2002 SPECIAL TAX BONDS

Dated: Delivery Date

Due: September 1 as shown below

The 2002 Special Tax Bonds (the "Bonds") are authorized pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from certain special taxes to be levied on property within Community Facilities District No. 90-2 (Talega) (the "District") of the Capistrano Unified School District (the "School District"), according to the rate and method of apportionment of special taxes approved by the voters within the District and by the Board of Trustees of the School District. Payment of principal of and interest on the Bonds is secured by a lien and charge upon such special taxes. The Bonds will be issued pursuant to a First Supplemental Bond Indenture dated as of November 1, 2002 and a Bond Indenture dated as of October 1, 2001, both between the District and U.S. Bank, N.A., as fiscal agent (the "Fiscal Agent").

The Bonds will be issued as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, N.Y. ("DTC"), and will be available to ultimate purchasers in the denomination of \$5,000 each or any integral multiple thereof pursuant to the book-entry system maintained by DTC. Ultimate purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2003. Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to DTC's Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants, as more fully described herein. See "THE BONDS—Book-Entry System" herein.

The Bonds are subject to optional and mandatory redemption as discussed herein. See "THE BONDS—Optional Redemption," "THE BONDS—Mandatory Redemption from Special Tax Prepayments" and "THE BONDS—Mandatory Sinking Fund Redemption" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF ORANGE, 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 OBLIGATIONS OF THE SCHOOL DISTRICT OR THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AS MORE FULLY DESCRIBED HEREIN.

MATURITY SCHEDULE

(See inside cover page)

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 which should be considered, in addition to other matters discussed herein, in evaluating the investment quality of the Bonds.

This cover page contains information for quick reference only. It is not a complete summary. Investors should read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered, when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, Riverside, California. It is anticipated that the Bonds will be available for delivery through the book-entry system of DTC in New York, New York on or about November 7, 2002.

UBS PaineWebber Inc.

Dated: October 31, 2002

MATURITY SCHEDULE \$5,200,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP No.*	Maturity Date (September 1)	Principal Amount	Interest Rate	Price	CUSIP No.*
2006	\$ 15,000	3.600%	99.643	139705FN2	2015	\$270,000	5.625%	99.315	139705FX0
2007	35,000	3.800	99.560	139705FP7	2016	315,000	5.750	99.519	139705FY8
2008	60,000	4.250	99.232	139705FQ5	2017	355,000	5.800	99.499	139705 FZ 5
2009	80,000	4.500	99.126	139705FR3	2018	400,000	5.900	100.000	139705 GA 9
2010	105,000	4.750	99.028	139705FS1	2019	450,000	5.900	100.000	139705GB7
2011	135,000	5.000	99.429	139705FT9	2020	505,000	5.900	100.000	139705GC5
2012	165,000	5.100	98.853	139705FU6	2021	560,000	5.875	99.147	139705GD3
2013	200,000	5,300	99.382	139705FV4	2022	625,000	5.875	99.123	139705GE1
2014	235,000	5.550	100.000	139705FW2	2023	690,000	5.875	99.101	139705 GF 8

\$12,405,000, 6.000% Term Bonds Due September 1, 2032, Price 99.302, CUSIP No. 139705GG6

^{*}Copyright 2002 American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

CAPISTRANO UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Shelia J. Henness President

John J. Casabianca Vice-President

Dr. Duane E. Stiff Clerk

Sheila J. Benecke Member Mike Darnold Member

Marlene M. Draper Member Crystal Kochendorfer Member

OFFICERS

Dr. James A. Fleming District Superintendent

David A. Doomey Associate Superintendent Facilities Planning

PROFESSIONAL SERVICES

Bond Counsel

Special Tax Consultant

Stradling Yocca Carlson & Rauth a Professional Corporation Newport Beach, California David Taussig & Associates, Inc. Newport Beach, California

Appraiser

Market Absorption Consultant

Bruce W. Hull & Associates, Inc. Ventura, California

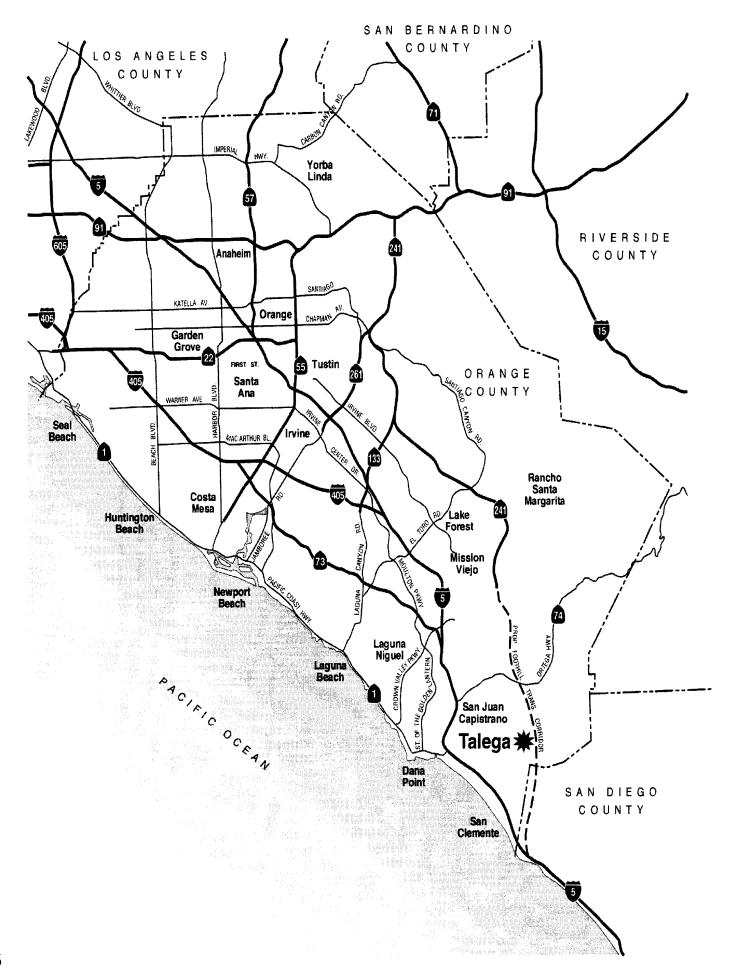
Empire Economics, LLC Capistrano Beach, California

Fiscal Agent

U.S. Bank, N.A. Los Angeles, California

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IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and any continuing disclosure documents of the District are intended to be made available through the Capistrano Unified School District ("the School District") at the address indicated below. The District has undertaken to provide certain continuing disclosure pursuant to a Continuing Disclosure Agreement, as described herein. Copies of the resolutions and other documents relating to the issuance of the Bonds are available upon request, and upon payment to the School District of a charge for copying, mailing and handling, from the Clerk of the Board of Trustees of the School District at 32972 Calle Perfecto, San Juan Capistrano, California 92675.

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

This Official Statement is not to be construed as a contract with the purchasers 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 a representation of facts.

The information set forth herein has been obtained from the District, the School District and other sources believed to be reliable. This information is not guaranteed as to accuracy and is not to be construed as a representation by the District, the School District or the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the School District since the date hereof. All summaries contained herein of any resolutions, the Indenture, or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

THE UNDERWRITER HAS REVIEWED THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH ITS RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS, BUT DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF THE INFORMATION.

\$17,605,000 COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) 2002 SPECIAL TAX BONDS

INTRODUCTION

General

This Official Statement, including the cover page, table of contents and Appendices hereto, is provided to furnish certain information in connection with the issuance and sale by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") of its bonds, designated 2002 Special Tax Bonds in the aggregate principal amount of \$17,605,000 (the "Bonds"). The Bonds will be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and a resolution adopted by the Board of Trustees of the Capistrano Unified School District (the "Board of Trustees") on October 7, 2002 and a First Supplemental Bond Indenture dated as of November 1, 2002 (the "Supplemental Indenture") between the District and U.S. Bank, N.A., as fiscal agent (the "Fiscal Agent"). The Supplemental Indenture supplements a Bond Indenture between the District and the Fiscal Agent dated as of October 1, 2001 (the "Indenture") pursuant to which the Prior Bonds were issued. See "The Prior Bonds" below. The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof and will be dated as of and bear interest from the date of their delivery at the rates set forth on the cover page hereof.

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 the 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 D - "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Certain Definitions."

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21 E of the United States Securities Exchange Act of 1934, as amended, and Section 27 of United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," or other similar words. Such forward-looking statements include, but are not limited to, certain statements and information contained in the section of this Official Statement entitled "THE DEVELOPMENT PROJECT".

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT.

The District

The District consists of approximately 2,149 gross acres of land which are located in the southwesterly part of the School District and in the southwesterly portion of Orange County. The land within the District is part of the approximately 3,510 acre Talega Valley Planned Development (the "Talega Project"). Approximately 2.102 acres of the Talega Project are located in the City of San Clemente and the balance of approx mately 1.408 acres are located in the County within the City's sphere of influence and will be annexed to the City. Four hundred ninety-six acres have been annexed to the City. The development plan for the Talega Project provides for the development of the property within the District into 3,866 residential units, approximately 9.78 acres containing approximately 162,000 square feet of commercial retail uses and approximately 68.6 acres containing approximately 1,007,000 square feet of business park uses. The development plan also provides for the construction of an 18-hole, professionally designed, public golf course on approximately 228 acres and approximately 2,012 acres of natural open-space and public support uses including parks and an elementary school. The portions of the Talega Project land that are being developed pursuant to the development plan are located entirely within the District. As of September 3, 2002, building permits had been issued for approximately 1,566 residential units. These units are expected to contain approximately 3,688,400 square feet of taxable residential floor area. As of that date, building permits had also been issued for construction of non-residential buildings on 30.8 acres of land. These buildings are expected to contain 459,568 square feet of taxable nonresidential floor area. The golf course has been constructed and is open for play. The elementary school is under construction and is expected to be completed in September 2003.

The Mello-Roos Community Facilities Act of 1982, as amended, Section 53311 et seq. of the Government Code of the State of California (the "Act"), was enacted by the California Legislature to provide an alternative method of financing certain public facilities and services, especially in developing areas. Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness.

The purpose of the bonded indebtedness to be incurred is to finance certain school facilities of the School District. See "FINANCING PLAN".

Pursuant to the Act, in establishing the District, the Board of Trustees adopted resolutions stating its intent to form the District, to authorize the levy of special taxes on land within the District (the "Special Taxes") and to authorize the District to incur bonded indebtedness. Following public hearings conducted pursuant to the Act, the Board of Trustees adopted resolutions establishing the District and calling a special election to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On June 19, 1990, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$10,000,000 and approved the levy of the Special Taxes on taxable property in the District to pay the principal of, and interest on, such bonded indebtedness.

On April 26, 1999, the Board of Trustees adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the District. On June 14, 1999, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness.

Sources of Payment for the Bonds

The Bonds are payable from the Special Taxes to be included on the regular property tax bills sent by the County of Orange Treasurer/Tax Collector (the "County Treasurer") to the record owners of property within the District. The principal of and interest on the Bonds are secured by a lien upon and pledge of the revenues of the Special Taxes levied on taxable property within the District. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes" and Appendix C hereto.

The District has covenanted for the benefit of the Owners of the Bonds that it will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent special taxes on such parcels is greater than \$5,000 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 properties 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 Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of five years or more in an amount in excess of \$10,000, so long as (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (b) the District is not in default in the payment of the principal of or interest on the Bonds. See "SECURITY FOR THE BONDS - The Special Taxes" and "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

As additional security for the Bonds, the 2002 Bonds Reserve Account will be established in the Reserve Account of the Special Tax Fund (the "2002 Bonds Reserve Account") out of the proceeds of the sale of the Bonds. Pursuant to the Supplemental Indenture, the initial Reserve Requirement for the Bonds is an amount equal to \$1,738,458.02. If the amount in the 2002 Bonds Reserve Account is less than the Reserve Requirement, then the District has covenanted to restore the amount in the 2002 Bonds Reserve Account to the Reserve Requirement by the inclusion of a sufficient amount in the next annual Special Tax levy. The ability of the Board of Trustees, in its capacity as the legislative body of the District, to increase the annual Special Taxes levied to replenish the 2002 Bonds Reserve Account is subject to the maximum annual amounts of Special Taxes authorized by the qualified voters of the District. The moneys in the 2002 Bonds Reserve Account will be used only for payment of the principal of, and interest and any redemption premium on, the Bonds and, at the direction of the District, for deposit in the Rebate Fund. See "SECURITY FOR THE BONDS - Special Tax Fund - Reserve Account."

The Prior Bonds

On October 31, 2001, the District issued bonds designated "Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2001 Special Tax Bonds" in the aggregate prinicpal amount of \$23,050,000 (the "Prior Bonds"). The Prior Bonds are secured by a lien and charge upon the Net Taxes and other amounts deposited in the Special Tax Fund which is on a parity with the lien and charge upon the Net Taxes and such other amounts which secures payment of the Bonds. The Prior Bonds were issued to finance portions of the costs associated with the design and construction of the Project.

The Original Bond Indenture

The Prior Bonds were issued pursuant to a Bond Indenture between the District and the Fiscal Agent, dated as of October 1, 2001 (the "Indenture"). The Supplemental Indenture supplements the Indenture to provide for the issuance of the Bonds as Parity Bonds (as defined in the Indenture). Accordingly, except as specifically provided in the Supplemental Indenture, the Indenture is applicable to the Bonds in the same manner and to the same extent that it is applicable to the Prior Bonds.

Issuance of Parity Bonds

Upon satisfying conditions set forth in the Indenture, the District may issue additional bonds which would be Parity Bonds, secured by a lien and charge upon the Net Taxes and other amounts deposited in the Special Tax Fund which would be at parity with the lien and charge upon the Net Taxes and such other amounts which secure payment of the Prior Bonds and the Bonds. The District may issue bonds, without the consent of the owners of the Bonds for the purpose of refunding all or any portion of the outstanding Prior Bonds and/or the Bonds. See "SECURITY FOR THE BONDS - Issuance of Parity Bonds" for the conditions that must be satisfied for the issuance of Parity Bonds.

The Improvement Area

At the request of Talega Associates, the Board of Trustees of the School District has conducted proceedings pursuant to the Act to designate Improvement Area No. 2002-1 over portions of the undeveloped property in the District (the "Improvement Area") for the purpose of issuing not to exceed \$50,000,000 of bonds of the District (the "Improvement Area Bonds") to finance certain road and other facilities for the City of San Clemente and additional school facilities of the School District. The Improvement Area includes all of the property in the District except the property in Village I, Village II and the Business Park of the Talega Project. If the Improvement Area Bonds are issued, they will be secured by special taxes levied on property in the Improvement Area which will have a lien on a parity with the lien of the Special Taxes which are levied on such property to pay debt service on the Prior Bonds and the Bonds. See "SECURITY FOR THE BONDS - The Improvement Area."

Property Values

An appraisal of the taxable property in the District dated September 16, 2002 (the "Appraisal"), has been prepared by Bruce W. Hull & Associates, Inc., of Ventura, California (the "Appraiser"). The Appraiser has estimated the market value of the property to be \$784,878,627 as of September 3, 2002. The ratio of the total amount of the appraised value of the property, as determined by the Appraiser, to the amount of bonded indebtedness (the "Value-to Lien Ratio") which will be outstanding and secured by special taxes and assessments levied on such property upon the issuance of the Bonds will be approximately 7.734 to 1. See "SECURITY FOR THE BONDS - Property Values."

See "SPECIAL RISK FACTORS - The Appraisal and Value-to-Lien Ratios." In addition, see "SECURITY FOR THE BONDS - Direct and Overlapping Debt" for a discussion of additional debt payable on a parity with the Bonds. See also the Summary Appraisal Report which is included as Appendix A hereto.

The Improvement Area Bonds may be issued in the fourth quarter of 2003 in the approximate amount of \$40,000,000. Also, additional bonds of Community Facilities District No. 99-1 (Talega) of the Santa Margarita Water District ("CFD 99-1") may be issued in the approximate amount of \$20,000,000 in the first quarter of 2003. The additional bonds of CFD 99-1 will be secured by special taxes levied on property in the District. See "SECURITY FOR THE BONDS - Other Financing Districts."

Neither the faith and credit nor the taxing power of the School District, the County of Orange (the "County"), the State of California (the "State") 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 the County or general obligations of the District, but are limited obligations of the District payable solely from the Special Taxes 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 system is discontinued 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, as described herein. See "THE BONDS - Book-Entry System."

Tax Matters

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 certain 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 E hereto 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 MATTERS" herein.

Professionals Involved in the Offering

U.S. Bank, N.A., Los Angeles, California, will act as Fiscal Agent under the Indenture and the Supplemental Indenture and as the initial Dissemination Agent under the Continuing Disclosure Agreement. UBS PaineWebber Inc. is the Underwriter for the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the District and the School District by Stradling, Yocca, Carlson & Rauth, a Professional Corporation, and for the Underwriter by Best Best & Krieger LLP, Riverside, California, as Underwriter's Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, Bruce W. Hull & Associates, Inc., Ventura, California, as Appraiser, and Empire Economics, LLC, Capistrano Beach, California, as Market Absorption Consultant.

For information concerning circumstances in which certain of the above-named professionals may have a financial or other interest in the offering of the Bonds, see "FINANCIAL INTERESTS" herein.

Special Risks

See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds.

Continuing Disclosure

On October 31, 2001, at the time of the issuance of the Prior Bonds, the District and the Fiscal Agent, as Dissemination Agent, entered into a Continuing Disclosure Agreement whereby the District covenanted, for the benefit of the Owners of the Prior Bonds, to provide certain financial information and operating data relating

to the District by not later than six months after the end of each fiscal year (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events, if deemed by the District to be material. The Annual Reports will be filed by the Fiscal Agent, as Dissemination Agent on behalf of the District, with each Nationally Recognized Municipal Securities Information Repository and with any State Repository which may be designated by the State of California (the "Respositories"). The notices of material events will be filed by the Fiscal Agent, as Dissemination Agent, on behalf of the District with the Municipal Securities Rulemaking Board (the "MSRB") and with any such State Repository which may be designated. The District and the Fiscal Agent, as Dissemination Agent, will enter into an Amendment to Continuing Disclosure Agreement, dated as of the date of issuance of the Bonds, which requires the inclusion of additional information regarding the Bonds in the Annual Reports that will be filed by the Fiscal Agent, as Dissemination Agent, with the Repositories pursuant to the Continuing Disclosure Agreement. A copy of the Amendment to Continuing Disclosure Agreement is included in Appendix F immediately after the Continuing Disclosure Agreement.

On October 31, 2001, at the time of the issuance of the Prior Bonds, Talega Associates and the Fiscal Agent, as Dissemination Agent, also entered into a continuing disclosure agreement whereby Talega Associates covenanted for the benefit of the Owners of the Prior Bonds to provide certain financial information and operating data relating to the development of its property within the District in Annual Reports filed by the Fiscal Agent, as Dissemination Agent, with the Repositories by May 1 of each year and in Semiannual Reports filed by the Fiscal Agent, as Dissemination Agent, with the Repositories by November 1 of each year, and to provide notices of the occurrence of certain specified events, if determined by Talega Associates to be material, to the MSRB and any such State Repository. Talega Associates and the Fiscal Agent, as Dissemination Agent, will enter into an amendment to Talega Associates' continuing disclosure agreement, dated as of the date of issuance of the Bonds, which amends that agreement to make it applicable to the Bonds. A copy of the amendatory agreement is included in Appendix G immediately after Talega Associates' continuing disclosure agreement.

The specific nature of the information to be contained in the Annual Reports or the notices of material events is set forth in "APPENDIX F - CONTINUING DISCLOSURE AGREEMENT" and "APPENDIX G - DEVELOPER DISCLOSURE AGREEMENT." These covenants of the District and Talega Associates have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

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, certain sections of the Indenture, the Supplemental Indenture, security for the Bonds, special risk factors, the District, the School District, the major landowners and developers in the District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, the Supplemental Indenture, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights.

Copies of such documents may be obtained from the office of the Clerk of the Board of Trustees of the School District, 32972 Calle Perfecto, San Juan Capistrano, California 92675.

FINANCING PLAN

The Project

The District will deposit a portion of the net Bond sale proceeds in the Acquisition and Construction Fund to finance portions of the costs associated with the design and construction of an elementary/middle school and a high school (the "Project").

Sources and Uses of Funds

The Bond proceeds will be applied as follows:

Sources of Funds	
Principal Amount of Bonds	\$17,605,000.00
Original Issue Discount	(114,478.80)
Total Sources	\$ 17,490,521.20
Uses of Funds	
Acquisition and Construction Fund	\$14,428,382.56
Reserve Account	1,738,458.02
Costs of Issuance Account	263,000.51
Capitalized Interest Subaccount ⁽¹⁾	849,420.11
Underwriter's Discount	211,260.00
Total Uses	\$17,490,521.20

⁽¹⁾ A portion of the interest on the Bonds through September 1, 2003.

THE BONDS

Description of the Bonds

The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof and will be dated as of and bear interest from the date of their delivery at the rates set forth on the cover page hereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), and will be available to ultimate purchasers under the book-entry system maintained by DTC. See "Book-Entry System" below.

The principal of the Bonds and any premiums due upon the redemption thereof will be payable in lawful money of the United States of America by check of the Fiscal Agent at the principal corporate trust office of the Fiscal Agent in Minneapolis, Minnesota, upon presentation and surrender of such Bonds.

Interest on the Bonds will be paid in lawful money of the United States of America commencing March 1, 2003, and semiannually thereafter on September 1 and March 1 of each year (each, an "Interest Payment Date"). Interest on the Bonds shall be paid by check of the Fiscal Agent mailed by first class mail on each Interest Payment Date to each Bondowner at his or her address as it appears on the registration books for the Bonds to be kept by the Fiscal Agent (the "Bond Register") as of the close of business on the 15th day preceding any interest payment date regardless of whether such day is a business day (the "Record Date"). Upon request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds, payment shall be made on the Interest Payment Date by wire transfer in

immediately available funds to an account in the United States designated by such Owner. Interest on any Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) the date of authentication is an Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond, in which event interest shall be payable from the dated date of such Bond; provided, however, that if at the time of authentication of any Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which interest has been paid or made available for payment. Interest due on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Bonds will mature on September 1 in the principal amounts and years as shown on the cover page hereof.

Authority for Issuance

The Bonds were authorized at a special election held on June 14, 1999 in the District and are issued pursuant to the Supplemental Indenture and the Indenture.

The District was formed and a bonded indebtedness in the amount of \$50,000,000 was authorized pursuant to the Act and a resolution adopted by the Board of Trustees of the School District (the "Board of Trustees"). Under the provisions of the Act, since there were fewer than 12 registered voters residing within the District at the time of the elections on the propositions regarding the authorization of bonded indebtedness and the levy of Special Taxes in the District to pay debt service on bonds, the owners of the land within the District were entitled to cast one vote for each acre or portion of an acre of land which they owned within the District. The landowners voted to authorize the District to incur a bonded indebtedness and to approve, for the purpose of repaying the bonded indebtedness, the annual levy of Special Taxes to be collected within the District. See "THE DISTRICT - Summary of Formation Proceedings."

Purpose of the Bonds

The Bonds are being issued to finance the Project. See "FINANCING PLAN."

Optional Redemption

The Bonds maturing on or before September 1, 2013 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after September 1, 2014 are subject to redemption prior to their stated maturities at the option of the District from any source of funds on September 1, 2013 and on any Interest Payment Date thereafter, in whole, or in part in the order of maturity selected by the District and by lot within a maturity, in integral multiples of \$5,000, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption.

Mandatory Redemption From Special Tax Prepayments

The Bonds are also subject to mandatory redemption prior to their stated maturities, on March 1, 2003 and on any Interest Payment Date thereafter, from moneys derived by the District from Special Tax prepayments, selected among maturities as determined by the District in its sole discretion (and by lot within any one maturity), in integral multiples of \$5,000, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

Redemption Dates	Redemption Prices
March 1, 2003 through March 1, 2011	103%
September 1, 2011 and March 1, 2012	102%
September 1, 2012 and March 1, 2013	101%
September 1, 2013 and thereafter	100%

Mandatory Sinking Fund Redemption

The Bonds maturing on September 1, 2032 will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 2024, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption will be selected by the Fiscal Agent by lot and will be redeemed at a redemption price for each redeemed Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Redemption Date (September 1)	Principal Amount of Bonds to be Redeemed
2024	\$ 760,000
2025	835,000
2026	915,000
2027	1,005,000
2028	1,095,000
2029	1,195,000
2030	1,300,000
2031	1,410,000
2032 (Maturity)	3,890,000

In the event of a partial optional redemption of the Bonds maturing on September 1, 2032, each of the remaining Sinking Fund Payments for such Bonds, as set forth in the schedule above, will be reduced, as nearly as practicable, on a pro rata basis.

Notice of Redemption

Notice of redemption, containing the information required by the Indenture, will be mailed by the Fiscal Agent at least 30 days but not more than 60 days prior to the redemption date to the registered Owners of the Bonds called for redemption, to each of certain specified securities depositories and to each of certain specified national information services. The actual receipt by any Bondowner of such notice of redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for redemption or the cessation of interest on the redemption date.

If the amount necessary for the redemption of the Bonds is available on the date fixed for redemption, the Bonds or portions thereof designated for redemption will be deemed to be no longer Outstanding and will cease to bear further interest.

Registration of Exchange or Transfer

The registration of any Bond may 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 office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form acceptable to the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

The District and the Fiscal Agent may treat the Owner of any Bond whose name appears on the Bond Register as the absolute Owner of that Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of a Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Bonds or other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Bondowner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds of the same issue and maturity, for a like aggregate principal amount. The Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

If any Bond shall become mutilated, the District shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond or Bonds of like tenor, date, issue and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of such mutilated Bond. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the District and the Fiscal Agent shall be given, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond of like tenor, date, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Fiscal Agent

U.S. Bank, N.A., has been appointed as the Fiscal Agent under the Supplemental Indenture and the Indenture.

The Fiscal Agent, and any successor thereto, may be removed by the District and a successor or successors may be appointed; provided, however, that any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and be subject to supervision or examination by federal or state authority. The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners of the Bonds notice of such resignation. Upon receiving such notice, the District shall promptly appoint a successor Fiscal Agent. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business shall be the successor to the Fiscal Agent without the execution or filing of any paper or any further act.

The Fiscal Agent assumes no responsibility for the correctness of the recitals of fact and all promises, covenants and agreements contained in the Indenture or the Bonds and makes no representations as to the validity or sufficiency of the Indenture or the Bonds and will incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Indenture and the Bonds. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in this official statement or any other disclosure material prepared and distributed with respect to the issuance of the Bonds. The Fiscal Agent shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. No provision of the Indenture shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture or in the exercise of its rights or powers.

Defeasance

The Indenture provides that if the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond, the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of the Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and 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 principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed above if the Bond or Parity 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 shall become due and payable;
- (b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on, such Bond or Parity 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, noncallable Federal Securities (as defined in the Indenture) in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) 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 or Parity Bond, as and when the same shall become due and payable.

In connection with a defeasance under (b) or (c) above, there must be provided to the District a verification report from an independent nationally recognized certified public accountant 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, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased as and when the same shall become due and payable, and an opinion of nationally recognized bond counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Debt Service Schedule

The following is the debt service schedule for the Bonds, assuming no redemption other than mandatory sinking fund redemptions.

Debt Service Schedule

Year Ending			Total Debt
<u>September</u>	<u>Principal</u>	Interest	Service
2003		\$ 849,420.11	\$ 849,420.11
2003		1,040,106.26	1,040,106.26
2004		1,040,106.26	1,040,106.26
2005	\$ 15,000	1,040,106.26	1,055,106.26
2007	35,000	1,039,566.26	1,074,566.26
2007	-	1,038,236.26	1,098,236.26
	60,000 80,000	1,035,230.20	1,115,686.26
2009	•	1,032,086.26	1,137,086.26
2010	105,000		
2011	135,000	1,027,098.76	1,162,098.76
2012	165,000	1,020,348.76	1,185,348.76
2013	200,000	1,011,933.76	1,211,933.76
2014	235,000	1,001,333.76	1,236,333.76
2015	270,000	988,291.26	1,258,291.26
2016	315,000	973,103.76	1,288,103.76
2017	355,000	954,991.26	1,309,991.26
2018	400,000	934,401.26	1,334,401.26
2019	450,000	910,801.26	1,360,801.26
2020	505,000	884,251.26	1,389,251.26
2021	560,000	854,456.26	1,414,456.26
2022	625,000	821,556.26	1,446,556.26
2023	690,000	784,837.50	1,474,837.50
2024	760,000	744,300.00	1,504,300.00
2025	835,000	698,700.00	1,533,700.00
2026	915,000	648,600.00	1,563,600.00
2027	1,005,000	593,700.00	1,598,700.00
2028	1,095,000	533,400.00	1,628,400.00
2029	1,195,000	467,700.00	1,662,700.00
2030	1,300,000	396,000.00	1,696,000.00
2031	1,410,000	318,000.00	1,728,000.00
2032	3,890,000	<u>233,400.00</u>	<u>4,123,400.00</u>
	\$17,605,000	\$24,916,519.05	\$42,521,519.05

Book-Entry System

The Depository Trust Company ("DTC"), New York, NY, 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) or such other name as may be requested by an authorized representative of DTC. 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, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's

participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. 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. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns

Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Fiscal Agent, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Fiscal Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Fiscal Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Fiscal Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Fiscal Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bonds will be printed and delivered.

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

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO A "BOND OWNER" OR "OWNER OF BONDS" MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The District cannot and does not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The District is not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

SECURITY FOR THE BONDS

The Bonds and the interest thereon are payable from the annual Special Taxes to be levied and collected on all property within the District subject to the Special Taxes and proceeds, if any, collected from the sale of such property at foreclosure sale for delinquency of such Special Taxes and from Bond proceeds deposited in the Reserve Account of the Special Tax Fund. The amount of Special Taxes that may be levied in the District in any year is strictly limited by the maximum rates approved by the qualified electors in the District. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes" and Appendix C hereto.

Amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) shall constitute a trust fund held for the benefit of the Owners of the Bonds to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding, shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Special Taxes and other amounts, if any, deposited in the Special Reserve Fund, the Rebate Fund and the Administrative Expense Account of the Special Tax Fund are not pledged to the payment of any of the Bonds, and none of such funds or such accounts shall be construed as a trust fund held for the benefit of the Owners of the Bonds.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, the Special Taxes are exempt from the tax rate limitations of California Constitution Article XIII A pursuant to Section 4 thereof as a "special tax" authorized by a two-thirds vote of the qualified electors of the District. Consequently, the District has the power and is obligated to cause the levy and collection of the Special Taxes in an amount determined according to a methodology which the Board of Trustees and the qualified electors in the District have approved (the "Rate and Method of Apportionment of Special Taxes"). See "The Special Taxes" below. However, Article XIII C of the California Constitution may allow the voters in the District (or perhaps in the School District), under certain conditions, to adopt an ordinance by initiative which would reduce or repeal the Special Taxes. See "SPECIAL RISK FACTORS - Constitutional Amendment." The Rate and Method of Apportionment of Special Taxes apportions the total debt service requirement (principal and interest and restoration of the Reserve Account, if required) each year among the taxable parcels and possessory interests in the District. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes."

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COUNTY OF ORANGE, 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 BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Special Taxes

The District has covenanted to levy the Special Taxes in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on the Prior Bonds and the Bonds when due and, to the extent permitted by law, the Administrative Expenses and any amounts required to replenish the Reserve Account to the Reserve Requirement. Any Special Tax levy, however, is limited to the maximum rates of Special Taxes authorized by the qualified electors of the District, as set forth in the Rate and Method of Apportionment of Special Taxes, and no assurance can be given that the necessary amounts will in fact be collected in any given year. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes" and Appendix C hereto.

The Special Taxes (except those which may be levied on possessory interests in property) will be billed with property taxes and collected by the County Treasurer. Any Special Taxes levied on leasehold or other possessory interests in property in the District will be collected by the County Treasurer on the unsecured tax roll

of the County. When received, such Special Taxes will be deposited in the Special Tax Fund (as hereinafter defined) for the payment of debt service on the Bonds, and in the Reserve Account to the extent necessary to restore the balance therein to the Reserve Requirement. The remainder of such Special Taxes will be deposited in the Special Reserve Fund. See "Special Reserve Fund" below.

Although the Special Taxes will be levied on taxable parcels within the District, they do not constitute a personal indebtedness of the property owners or possessory interest holders. There is no assurance that the property owners or possessory interest holders will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes."

The Prior Bonds

On October 31, 2001, the District issued the Prior Bonds in the aggregate principal amount of \$23,050,000. The Prior Bonds are secured by a lien and charge upon the Net Taxes and other amounts deposited in the Special Tax Fund which is on a parity with the lien and charge upon the Net Taxes and such other amounts which secures payment of the Bonds. The Prior Bonds were issued to finance portions of the costs associated with the design and construction of the Project. The Prior Bonds are outstanding in the amount of \$23,050,000.

The Improvement Area

At the request of Talega Associates, the Board of Trustees of the School District has conducted proceedings pursuant to the Act to designate Improvement Area No. 2002-1 over portions of the undeveloped property in the District (the "Improvement Area") for the purpose of issuing not to exceed \$50,000,000 of additional bonds of the District (the "Improvement Area Bonds") to finance certain road and other facilities for the City of San Clemente and additional school facilities of the School District. The Improvement Area includes all of the property in the District except the property in Village I, Village II and the Business Park of the Talega Project. Talega Associates plans to request the issuance of the Improvement Area Bonds in the approximate amount of \$40,000,000 in the fourth quarter of 2003. If the Improvement Area Bonds are issued, they will be secured by special taxes levied on property in the Improvement Area which will have a lien on a parity with the lien of the Special Taxes which are levied on such property to pay debt service on the Prior Bonds and the Bonds. The Indenture contains conditions that will have to be satisfied before the Improvement Area Bonds can be issued. See "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Parity Bonds - Conditions for the Issuance of Improvement Area Bonds."

Special Tax Fund

The discussion in this section summarizes certain provisions of the Indenture. The Bonds will be Parity Bonds, as that term is defined in the Indenture. Consequently, wherever reference is made in the Indenture (and in the following discussion) to Parity Bonds, such references should be understood to include the Bonds. References in the provisions of the Indenture which are summarized below to "the Bonds" are to the Prior Bonds and not the Bonds.

The Indenture establishes a fund to be held by the Fiscal Agent designated the Community Facilities District No. 90-2 Special Tax Fund (the "Special Tax Fund"). All moneys received from the annual Special Taxes levied and collected within the District and earnings thereon and proceeds from the sale of property at foreclosure sale for delinquent Special Taxes (the "Special Tax Revenues") shall be deposited in the Special Tax Fund and, except as otherwise authorized by the Indenture, shall be used for the purpose of paying the principal of, and interest on, the the Bonds and any Parity Bonds, paying Administrative Expenses of the District and restoring the Reserve Account to the Reserve Requirement.

Amounts in the Special Tax Fund (exclusive of the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners of the Bonds to be applied to the payment of interest

on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Moneys held by the Fiscal Agent in the Special Tax Fund and the accounts and subaccounts therein may be invested in certain "Authorized Investments" which are identified in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE" attached hereto as Appendix D.

On each date on which the Special Taxes are received from the District, the Fiscal Agent will deposit the Special Taxes in the Special Tax Fund to be held in trust. The Fiscal Agent will transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth below, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund (an amount not to exceed the Administrative Cap);
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Rebate Fund;
- (7) The Administrative Expense Account of the Special Tax Fund (an amount in excess of the Administrative Cap); and
- (8) The Special Reserve Fund.

Administrative Expense Account

The Fiscal Agent will transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District. The total deposit made to the Administrative Expense Account in any Bond Year will not exceed the Administrative Expense Cap (i.e., the amount of \$75,000, with such amount escalating by 2% per Bond Year beginning September 2, 2002) until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds due in such Bond Year.

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

Interest Account and Principal Account

The principal of and interest due on the Bonds and any Parity Bonds, until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer to the Administrative Expense Account, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent will make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal

Account from the proceeds of the sale of the Bonds or any Parity Bonds the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

- (a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.
- (b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account

Before each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the Indenture, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture and in any Supplemental Indenture for such Term Bonds.

After making the deposit to the Redemption Account for Sinking Fund Payments then due, and in accordance with the District's election to call Bonds for optional redemption, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for such Parity Bonds, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption to pay the interest thereon, provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used by the Fiscal Agent upon written direction of the District to settle purchases by the District of Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds, the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account

The Indenture provides that a Reserve Account must be maintained in the Special Tax Fund in an amount equal to the Reserve Requirement. The Supplemental Indenture provides that there is created within the Reserve Account of the Special Tax Fund, the 2002 Bonds Reserve Account, which shall be treated as a part of the Reserve Account for all purposes of the Indenture. Upon the issuance of the Bonds, \$1,738,458.02 will be deposited in the 2002 Reserve Account to establish the amount in the 2002 Bonds Reserve Account at the initial Reserve Requirement for the Bonds.

Pursuant to the Indenture, moneys in the Reserve Account, including the 2002 Bonds Reserve Account, shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds, when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds and Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account, including the 2002 Bonds Reserve Account, for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

Whenever moneys are withdrawn from the Reserve Account, after making the other required transfers, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

The Reserve Requirement is that amount as of any date of calculation which is equal to the lowest of (i) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, or (ii) Maximum Annual Debt Service, or (iii) 125% of average Annual Debt Service on the Outstanding Bonds and Parity Bonds.

Rebate Fund

The Indenture establishes the Rebate Fund and a separate Rebate Account therein. The District is required to annually calculate rebatable arbitrage ("Rebatable Arbitrage"), a specified in the Indenture, and to direct the Fiscal Agent to deposit to the Rebate Account, from funds designated by the District, the amount, if any, which is necessary to cause the balance in the Rebate Account to be equal to the amount of Rebatable Arbitrage. The Fiscal Agent is required to use the amount on deposit in the Rebate Account to make any required rebate payments to the United States Treasury which are necessary for the District to comply with the requirements of Section 148(f) of the Code.

The method of calculating Rebatable Arbitrage which is set forth in the Indenture may be amended, without the consent of the Owners of the Bonds, upon receipt by the District of an opinion of Bond Counsel that such amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any issue of Bonds and Parity Bonds on a tax-exempt basis.

Moneys in the Rebate Fund are not pledged to the payment of the Bonds.

Special Reserve Fund

After making the transfers described above, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Special Reserve Fund. Moneys deposited in the Special Reserve Fund may be transferred by the Fiscal Agent (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account are insufficient to pay Administrative Expenses.

The amounts in the Special Reserve Fund are not pledged for the payment of principal or interest on the Bonds and may be used by the District for any lawful purpose. In addition, the District is not obligated to maintain any amounts in the Special Reserve Fund, to deposit any moneys therein or to in any manner levy the Special Tax at a rate sufficient to provide moneys for deposit into the Special Reserve Fund.

Investment of Moneys

Moneys held in any of the funds, accounts and subaccounts under the Indenture will be invested by the Fiscal Agent at the direction of the District, in accordance with the limitations set forth in the Indenture, only in Authorized Investments which shall be deemed at all times to be a part of such funds, accounts and subaccounts. The Indenture defines Authorized Investments to include, with certain exceptions, investments which at the time of investment are legal investments under the laws of the State, which includes certain government obligations as well as other obligations which may or may not be rated by a national rating service. Authorized Investments include guaranteed investment agreements and repurchase agreements subject to certain requirements set forth in the Indenture.

One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase, and one-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase; provided that such amounts may be invested in an investment agreement to the final maturity of the Bonds or any Parity Bonds, so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds.

Any loss resulting from such Authorized Investments shall be credited or charged to the fund, account or subaccount from which such investment was made. Investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Reserve Fund and the Rebate Fund shall be deposited in those respective funds, investment earnings on all amounts deposited in the Administrative Expense Account shall be deposited in the Special Reserve Fund and all other investment earnings shall be deposited in the Interest Account of the Special Tax Fund.

Covenant for Superior Court Foreclosure

In the event of a delinquency in the payment of any installment of Special Taxes, the District is authorized by the Act to order institution of an action in the Superior Court of the County to foreclose any lien therefor. Such an action may result in the real property subject to such Special Taxes being sold at judicial foreclosure sale. The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be

limited in certain instances, such as by the bankruptcy of the property owner, and may require prior consent of the obligee in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation see "SPECIAL RISK FACTORS - Bankruptcy," "SPECIAL RISK FACTORS - Payments by FDIC," and "SPECIAL RISK FACTORS - Tax Delinquencies".

In the Indenture, the District has covenanted to commence judicial foreclosure proceedings against all parcels of property owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each fiscal year in which such Special Taxes were due, and that it will commence such foreclosure proceedings against all parcels with delinquent Special Taxes by the October I 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 Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of five years or more in an amount in excess of \$10,000, so long as (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (b) with respect to the Bonds, or any Parity Bonds, including the Bonds, the District is not in default in the payment of the principal of and interest on the Bonds or any such Parity Bonds. The District will not be obligated to advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement, or to avoid a default in the payment of the Bonds. In a foreclosure proceeding, the District is entitled to recover penalties and interest on the delinquent Special Taxes through the date that an order of sale is entered. See "SECURITY FOR THE BONDS - The Teeter Plan." Prompt commencement of foreclosure proceedings may not alone result in a timely or complete resolution of Special Tax delinquencies.

If the Reserve Account is depleted, there could be a default or a delay in payments to Owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds. However, within the limits of the Rate and Method of Apportionment of Special Taxes, the District may adjust the Special Taxes levied on all taxable property within the District to provide an amount required to pay debt service on the Bonds and to replenish the Reserve Account.

Under current law, a judgment debtor (property owner) has at least 120 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. This remedy is not available unless the judgment creditor purchases the property at the foreclosure sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived, the judgment creditor is entitled to interest on the revived judgment, and any liens extinguished by the sale are revived as if the sale had not been made.

Other Covenants

The District has made the following covenants in the Indenture, among others, for the benefit of the Owners of Bonds. However, these covenants do not require the District to spend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund. These covenants will be applicable to the Bonds as Parity Bonds under the Indenture.

- (a) The District will receive all Special Taxes in trust and will immediately deposit all Special Taxes with the Fiscal Agent and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes will be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.
- (b) The District will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond, together with the premium, if any, thereon on the dates, at the

place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor.

- (c) The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds.
- (d) The District will take no action and refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by referenced therein, including payment of any rebate amounts owing to the United States on the Bonds.
- The legislative body of the District covenants to levy the Special Taxes in an amount (e) sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (i) the principal (including Sinking Fund Payments) of and interest on the Bonds and any Parity Bonds when due, (ii) to the extent permitted by law, the Administrative Expenses, and (iii) any amounts required to replenish the Reserve Account to the Reserve Requirement. The District further covenants that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates, unless, in connection therewith (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of Annual Debt Service, after payment of the Administrative Expense Cap, in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interest of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculations, the Independent Financial Consultant or special tax administrator will compute the Administrative Expenses for the current fiscal year and escalate that amount by 2% in each subsequent fiscal year. For purposes of this covenant, Developed Property means a parcel of property for which a building permit for new construction was issued prior to March 1 of the prior fiscal year.

The District covenants that in the event any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the preceding paragraph or to limit the power of the District to levy the Special Taxes for the purposes set forth in that paragraph, it will commence and pursue legal action in order to preserve its ability to comply with its covenant contained in the preceding paragraph.

- (f) The District will cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the District's Special Tax Administrator and will not accept any such prepayment unless it receives a Certificate of the Special Tax Administrator stating that the amount of the Assigned Special Taxes that may be levied on all Taxable Property within the District both prior to and after the proposed prepayment is at least 1.1 times the Maximum Annual Debt Service on all Outstanding Bonds.
- (g) The District will not include in any calculation of the amount necessary to prepay and permanently satisfy the Special Tax obligation of any parcel of taxable property in the District a proportionate amount of the amount then on deposit in the Reserve Account of the Special Tax Fund, unless after the application of amounts from the Reserve Account to redeem Bonds as the result of the

prepayment of Special Taxes, the amount on deposit in the Reserve Account is equal to or greater than 100% of the then applicable Reserve Requirement.

(h) The District will not accept the tender of Bonds in lieu of cash for the payment of Special Taxes levied by the District.

The District has also covenanted in the Indenture to transfer an amount equal to any Rebatable Arbitrage to the Rebate Account in the Rebate Fund. In the event that the amounts in the Rebate Fund are insufficient, however, there is no assurance that the District will have sufficient moneys to fulfill its obligation to rebate Rebatable Arbitrage to the United States Treasury. In such event, interest on the Bonds could be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. See "Rebate Fund" above and "TAX MATTERS" and "SPECIAL RISK FACTORS - Loss of Tax Exemption."

Supplemental Bond Indentures

The Indenture may be modified or amended at any time without notice to or the consent of any Bondowners, by a Supplemental Indenture entered into by the District and the Fiscal Agent 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 additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners, (b) to add to the covenants and agreements of and the limitations and 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 or which further secure Bond payments, (c) 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, (d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by the Code or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds then Outstanding, (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 Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under another section of the Indenture, or (f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

The section of the Indenture which is referred to in clause (e) of the preceding paragraph provides that in order for the District to reduce the maximum Special Tax, it must receive a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the Annual Debt Service, after payment of the Administrative Expense Cap, in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved.

The Supplemental Indenture is a supplemental indenture entered into by the District and the Fiscal Agent to provide for the issuance of the Bonds, as Parity Bonds, and the terms and conditions under which the Bonds will be issued.

The Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an

extension of the maturity date of the principal, 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 over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to a Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

Issuance of Parity Bonds

Upon satisfaction of the conditions specified in the Indenture, as amended by the Supplemental Indenture, the District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued for any purposes authorized under the Act. Among the conditions which must be satisfied is a requirement that the District provide a certificate issued by one or more Independent Financial Consultants which, when taken together, certify that: (a) the value of District Property (i.e., all parcels of property in the District which are subject to the levy of the Special Tax and not delinquent in the payment of any Special Taxes then due and owing), with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and State agencies having jurisdiction over the property as of the date of valuation, is at least three and one-half (3.5) times the sum of the aggregate principal amount of the Outstanding Bonds, the Parity Bonds proposed to be issued and Overlapping Debt (i.e., other outstanding bonded indebtedness which is secured by special taxes and assessments levied on property in the District) with respect to all taxable property in the District, and (b) the maximum Special Taxes that may be levied on Developed Property (not including any parcels of Developed Property with delinquent Special Taxes and assuming (i) taxation as "Developed Property" as defined in the Rate and Method of Apportionment of Special Taxes (RMA) and (ii) escalation of the maximum Special Taxes as permitted pursuant to the RMA) in each Fiscal Year, is at least equal to 100% of the sum of the then Administrative Expense Cap plus Annual Debt Service in each Fiscal Year on Outstanding Bonds and the Parity Bonds proposed to be issued. The value of District Property must be determined by an appraisal performed in a manner specified in the Indenture or from the last equalized assessment roll of the County Assessor.

The preceding discussion is a summary of the principal conditions that must be satisfied before the District can issue Parity Bonds. See "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Parity Bonds - Conditions for the Issuance of Parity Bonds and Other Additional District Indebtedness" for the complete terms of the conditions that must be satisfied before the District can issue Parity Bonds to finance additional Project costs.

If the Improvement Area Bonds are issued they will be secured by special taxes levied on property in the Improvement Area which will have a lien on a parity with the lien of the Special Taxes which are levied on such property to pay debt service on the Prior Bonds and the Bonds. Talega Associates plans to request the issuance of the Improvement Area Bonds in the approximate amount of \$40,000,000 in the fourth quarter of 2003. The conditions contained in the Indenture that must be satisfied before the Improvement Area Bonds may be issued are different from the conditions summarized in the preceding discussion. See "The Improvement Area" above.

Property Values

The Appraisal was prepared to estimate the market value of the taxable property within the District based on certain assumptions. See the Summary Appraisal Report contained in Appendix A hereto for a complete description of the assumptions made by the Appraiser.

The aggregate totals of the appraised values of the taxable property in the District, as estimated by the Appraiser and set forth in the Appraisal, is approximately 7.734 times the aggregate principal amount of the Bonds, the aggregate principal amount of the Prior Bonds, the aggregate principal amount of the outstanding bonds of Community Facilities District No. 99-1 of the Santa Margarita Water District (the "Water District") and

certain indebtedness of the Metropolitan Water District of Southern California which is allocable to the taxable property in the District, as shown in Table 1 under "Direct and Overlapping Debt" below and in Table 2 under "Summary of Appraised Values and Certain Public Debt" below.

No assurance can be given that this relationship or ratio of the appraised values of the property in the District to such indebtedness can or will be maintained during the period of time that the Bonds are Outstanding in that the actual value of the property may vary from that estimated by the Appraiser or assigned by the County Assessor, and the School District has no control over the amount of additional indebtedness that may be issued in the future by other governmental agencies, the payment of which, through the levy of a tax or an assessment, is on a parity with the Special Taxes.

Direct and Overlapping Debt

Table 1 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the District.

Table 1 Community Facilities District No. 90-2 (Talega) Direct and Overlapping Debt Summary

Overlapping Debt

Water District CFD No. 99-1

Metropolitan Water District

Actual FY 2002-03 Total Levy	Amount of Levy on Taxable Parcels in District ⁽¹⁾	Percent of Levy on Taxable Parcels in District	Total Debt Outstanding	District Share of Total Debt Outstanding
\$3,758,025	\$3,758,025	100.0000%	\$67,035,000	\$67,035,000
\$100,238,961	\$40,465	0.0404%	\$503,075,000	\$203,086
	Estimated Share	Estimated Share of Overlapping Debt Allocable to the District ⁽²⁾	able to the District ⁽²⁾	\$67,238,086
			Plus the Prior Bonds Plus the Bonds	\$23,050,000 \$17,605,000
	Estimated Share of Direct	Estimated Share of Direct and Overlapping Debt Allocable to the District	ocable to the District	\$107,893,086
Less Sh	hare of Direct and Overlap	Less Share of Direct and Overlapping Debt Allocable to Non-Taxable Property(3)	n-Taxable Property ⁽³⁾	\$ 6,412,077
	Estimated Direct and Ov	Estimated Direct and Overlapping Debt Allocable to Taxable Property ⁽⁴⁾	o Taxable Property ⁽⁴⁾	\$101,481,009

(1) Includes levy on age-restricted units.

(2) If the AMP Assessments levied by the Water District on property in the District were included as overlapping debt, the total overlapping debt would be increased to \$68,928,166. See "Other Financing Districts - AMP Assessments" below.

(3) Property in Area 2C of Village II of the Talega Project where age-restricted housing units are located is not Taxable Property in the District. However, it is Taxable Property in CFD No. 99-1.

(4) If the AMP Assessments were included as overlapping debt, the total estimated direct and overlapping debt allocable to taxable property in the District would be increased to \$102,994,102.

Source: David Taussig & Associates, Inc.

Other public agencies, such as the Water District, may issue additional indebtedness at any time, without the consent or approval of the School District or the District. See "SPECIAL RISK FACTORS - Future Indebtedness."

The District has not undertaken to commission annual appraisals of the market value of property in the District for purposes of its Annual Reports pursuant to the Continuing Disclosure Agreement, and information regarding property values for purposes of a direct and overlapping debt analysis which may be contained in such reports will be based on assessed values as determined by the County Assessor. See Appendix F hereto for the form of the Continuing Disclosure Agreement.

Other Financing Districts

<u>The Improvement Area.</u> If the Improvement Area Bonds are issued to finance facilities for the School District and the City of San Clemente, they will be secured by special taxes levied on property in the Improvement Area which will have a lien on a parity with the lien of the Special Taxes which are levied on such property to pay debt service on the Prior Bonds and the Bonds. Talega Associates plans to request the issuance of the Improvement Area Bonds in the approximate amount of \$40,000,000 in the fourth quarter of 2003. See "The Improvement Area" above.

<u>CFD No. 99-1</u>. The Water District has established its Community Facilities District No. 99-1 (Talega) ("CFD No. 99-1") which includes all of the land within the District. On August 17, 1999, CFD No. 99-1 issued its Series 1999 Special Tax Bonds (the "CFD No. 99-1 Bonds") in the aggregate principal amount of \$67,070,000. The CFD No. 99-1 Bonds are outstanding in the aggregate principal amount of \$67,035,000. Talega Associates has discussed with the Water District the possibility that a second series of bonds of CFD No. 99-1 in the approximate amount of \$20,000,000 will be issued in the first quarter of 2003 and that a third series of bonds of CFD No. 99-1 in the approximate amount of \$10,000,000 may be issued in the fourth quarter of 2003.

AMP Assessments. The Water District also levies annual assessments on all parcels in its Improvement District No. 7, which includes all of the land in the District, to pay a portion of installment payments for the purchase of capacity in the Allen-McColloch Pipeline, a regional water supply transmission and delivery pipeline (the "AMP Assessments"). The Water District's installment payments are made to the Municipal Water District of Orange County Water Facilities Corporation and are used to pay principal and interest on debt that was incurred to finance the Allen-McColloch Pipeline. In fiscal year 2002-03 the Water District levied AMP Assessments on parcels in the District in the amount of \$48.50 per parcel.

The District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within the District which may be incurred in the future by other governmental agencies, including but not limited to the City, the Water District or any other governmental agency having jurisdiction over all or a portion of the property within the District. Furthermore, nothing prevents the owners of property within the District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the property within the District on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the District to pay the Special Taxes when due. See "SPECIAL RISK FACTORS - Future Indebtedness."

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See "SPECIAL RISK FACTORS - The Appraisal."

Summary of Appraised Values and Certain Public Debt

Associates, properties which are owned by the other developer-property owners in the District and properties that are owned by individual homeowners based on the appraised values of those properties and an allocation among those properties of the principal amounts of the Bonds, the outstanding Prior Bonds, the outstanding bonds of CFD No. 99-1, and other outstanding bonded indebtedness which relates to property in the District. Table 2 assumes that parcels of Developed Property and Near Term Property are taxed at the Assigned Special Tax Rates for Developed Property as set forth in the Rate and Method of Apportionment of Special Taxes and the rate and method of apportionment of special tax for CFD No. 99-1. The estimated Special Tax amounts for Near Term Property in the District were determined based on estimated square footages of residences and commercial and industrial structures which are expected to be constructed on the parcels which have been determined to be Near Term Property. The estimated Special Tax amounts for parcels of property in CFD No. 99-1 which have been determined to be Near Term Property and which are expected to have commercial and industrial structures constructed thereon were determined based on the acreage of such parcels. For fiscal year 2002-03, Special Taxes were levied on parcels of Developed Property at the Assigned Special Tax rate for Developed Property. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes."

Table 2 also shows the amount of Special Tax revenues that could be provided if Special Taxes were levied on parcels of Undeveloped Property in the District at the Maximum Special Tax rate for Undeveloped Property. Special Taxes were levied on Undeveloped Property for fiscal year 2002-03.

For purposes of Table 2 and Table 3 below, "Near Term Property" is property (i) with respect to which a subdivision map or parcel map creating conveyable parcels has been recorded with the County Recorder, (ii) for which grubbing and clearing are complete, (iii) for which both rough cut and fill are 90% complete and grading on a materials moved basis is 90% complete, (iv) with respect to which a paved public access road with utilities, other than water and sewer, has been completed to within 100 yards of the site, (v) with respect to water and sewer utilities, a will-serve letter has been executed by the Water District covering all of the Near Term Property, and (vi) with respect to which no building permit for a residential unit or a non-residential building has been issued.

Several assumptions were made in compiling Table 2 and Table 3 below, as discussed in the footnotes thereto, which should be read in their entirety.

Community Facilities District No. 90-2 (Talega) Value-to-lien Analysis 1 able 7

Estimated Value-to-Lien Ratio

Appraised Value

Total Lien(4)

Outstanding Bonds (3) MWD

MWD FY 2002-03

CFD No. 99-1 Outstanding Bonds (2)

CFD No. 99-1 FY 2002-03 Special Tax(1)

Outstanding The District Bonds (2)

> Special Tax (1) FY 2002-03

Owner	Special Tax(1)	Bonds (2)	Tax(1)	Bonds (2)	2002-03 Levy	Bonds (3)	Total Lien(4)	Appraised Value	Lien Katio
Developed Property	000	000 710 18	726 5513	627 227 630	8679	\$3.410	\$3 451 459	\$23,770,000	6.887
BHC Residential LLC	00/8/9	070,017,14	417,0014	620,262,26		3.010	2 670 273	13 \$70,000	3,688
BRE Properties	85,574	1,278,841	100,/1/	7,396,322	61.	3,710	5,0,0,0	13,770,000	0.000
Camino Peter T Tr	1,842	27,525	16,389	235,593	147	/40	/02,63/	7,199,763	6.557
Burke	13,693	204,651	85,979	1,235,929	1,100	5,518	1,446,099	16,411,232	11.349
Jourhouse Tel Hensing I D	45.128	686,613	87,919	1,263,819	149	747	1,951,179	3,988,968	2.044
Vindense Language Conter	634	9.473	9,385	134,912	63	314	144,700	2,292,500	15.843
Mindercale Leatining Center	7.338	114,155	45,360	652,045	357	1,790	767,989	5,321,864	6.930
Makena Standard Docife	83.809	1.286,653	163,279	2,347,099	775	3,889	3,637,641	23,590,000	6.485
Statitual of Facility of Homeowners - Senior	0	0	440,590	6,333,391	4,873	24,457	N/A	0	N/A
Talant Industrial Dark	4.005	59.859	28,417	408,489	116	583	468,932	8,035,000	17.135
Talega ilitusuiai faik	1,717	25,657	10,595	152,302	205	1,027	178,986	3,053,406	17.059
Talega Medical Flaza	2 943	46.293	5.734	82,428	2	12	128,733	488,777	3.797
Tava Development Co.	86.430	1.321.136	168,385	2,420,499	958	4,808	3,746,443	22,370,000	5.971
William Lyon Homes Inc.	905.895	13 537,987	1.764.889	25,369,918	28,777	144,427	39,052,332	494,698,419	12.668
Individual fromeowners. Subtotal	\$1,318,707	\$19,814,863	\$3,148,912	\$45,264,976	\$38,980	\$195,632	\$58,917,623	\$619,789,949	10.520
Near Term Property					;	•		000	000
RRE Properties	\$48,070	\$488,510	\$93,651	\$1,346,218	\$23	\$115	\$1,834,842	\$4,950,000	2.698
Caliber	2,999	30,474	20,885	300,212	14	69	330,755	1,500,000	4.535
Twing	871	8,854	890'9	87,226	28	141	96,221	466,000	4.843
Lomboroo, To! Houseing I D	22.913	232,858	44,641	641,700	74	374	874,932	1,056,032	1.207
Makena (5)		0	0	0	96	481	481	1,429,249	2,973.908
Makelia (J)	3 931	39.951	27.379	393,570	11	53	433,574	1,725,000	3.979
Recoud		0	3,764	54,103	25	126	N/A	0	N/A
True Development Co	13 209	337.480	64,698	930,016	27	137	1,267,634	5,702,397	4.498
utilism I no Homes Inc (6)	0	0		0	31	158	156	0	N/A
Talaca Accomistee (7)	39,993	406,424	174,361	2,506,398	24	119	2,912,941	6,425,927	2.206
Subtotal	\$151,986	\$1,544,551	\$435,446	\$6,259,444	\$353	\$1,769	\$7,751,535	\$23,254,605	3.000
Undeveloped Property	(0) 3 00 00 10	120 613	(8/8/6 302	412.419	901	\$45	926 025	8.330.000	8.995
OBSLP/Standard Pacific	6)050,050(6)	100,010	11 107 814(8)	15 098 161	1 024	\$ 140	33 885 826	133,504,073	3.940
Talega Associates	6,920,331(8)	10,102,300	611 502 502	615,670,101	61 133	\$5,684	\$34.811.851	\$141 834 073	4.074
Subtotal	\$7,109,386	919,293,380	311,503,03,	000,010,010	61,10		1001101	2000	
Grand total	\$8,580,079	\$40,655,000	\$15,088,050	\$67,035,000	\$40,465	\$203,086	\$101,481,009	\$784,878,627	7.734

Assumes that all Developed Property and Near Term Property is taxed at the Assigned Special Tax rate for Developed Property. Allocated based on provisions in the Indentures for the District and CFD No. 99-1.

Allocated based on estimated fiscal year 2002-03 levy.

AMP Assessment debt has been omitted for this analysis.

Represents parking lot owned by Makena that is expected to remain undeveloped. This parcel was designated as Near Term Property but no bonds were allocated to it because, upon build-out of the Talega Project, this parcel will continue to be classified as Undeveloped Non-Residential Property and it is expected that it will not be necessary to levy Special Taxes on such property. However, for fiscal year 2002-03, this parcel was taxed as Undeveloped Non-Residential Property.

Represents two lots owned by William Lyon Homes that will remain undeveloped.

The value of this property was estimated based on the ratio of the estimated sales prices for this property was estimated based on the ratio of the estimated sales prices for the property to the estimated based on the ratio of the ratio of the ratio **⊚**€

Represents the remaining capacity for acreage of Undeveloped Property based upon applying the Maximum Special Tax rate.

⁽⁸⁾ Represents the remaining capacity I Source: David Taussig & Associates, Inc.

If the AMP Assessments levied by the Water District on taxable property in the District for fiscal year 2002-03 were included as overlapping debt, the value-to-lien ration would be 7.621 to 1. See "Other Financing Districts – AMP Assessments" above.

The allocations of bond amounts contained in Table 2 do not represent actual lien amounts for the parcels of property identified in the table. These allocations are made based on the estimated amounts of Special Taxes which could be levied on such properties and the share of annual debt service for the Bonds which is represented by such Special Taxes.

Table 3 below shows the relationship, as a percentage, between the net revenues that would be provided if Special Taxes were levied at the Maximum Special Tax rates on parcels of property in the District which are considered to be Developed Property and Near Term Property and estimated annual debt service on the Prior Bonds and the Bonds for all Bond Years (i.e., September 2 of one calendar year to September 1 of the following calendar year). This relationship is referred to in the table as "coverage." Table 3 assumes that parcels of Undeveloped Property are developed as planned and that Special Taxes are levied on them at the Assigned Special Tax rates for Developed Property which would be applicable if they were so developed. Net Special Taxes contained in the table are the estimated total revenues from the levy of Special Taxes less an amount equal to the estimated Administrative Expense Cap (as defined in the Indenture) for each fiscal year.

Table 3 also shows the coverage that would be provided from Net Special Taxes for estimated net annual debt service on the Prior Bonds and the Bonds (i.e., net of estimated annual earnings on the Reserve Account) for all Bond Years. Table 3 also shows the coverage for estimated net annual debt service on the Prior Bonds and the Bonds for all Bond Years that would be provided if Special Taxes were levied at the Maximum Special Tax rates only on Developed Property and Near Term Property.

The Special Tax amounts in Table 3 assume that there will be no delinquencies in the payment of Special Taxes. In fiscal year 2001-02 Special Taxes were levied on 845 parcels of Developed Property in the District. Delinquent Special Taxes for that fiscal year were 2.34% of the total levy. The School District has six active community facilities districts, including the District, where special taxes are annually levied. In fiscal year 2001-02, special taxes were levied on a total of 22,554 parcels in these districts. The weighted average special tax delinquency for these special taxes was 1.36% of the total levy for all districts.

Community Facilities District No. 90-2 (Talega) Debt Service Coverage From Special Taxes Table 3

	Special			Net Special Taxes		,			Debt Service	Debt Service Coverage Total
Bond	Taxes Developed and Near Term (1)	Special Taxes Undeveloped (2)	Total Special Taxes	Developed and Near Term (3)	Total Net Special Taxes (4)	Debt Service Prior Bonds (5)	Debt Service The Bonds (6)	Total Debt Service	Coverage Developed	Available Special Tares (8)
9/1/03	\$1,430,700	\$ 1,676,283	\$ 3,106,983	\$ 1,352,670	\$ 3,028,953	\$ 1,326,008	\$ 849,420	\$2,175,428	62,2%	139.2%
9/1/04	1,459,314	1,709,809	3,169,123	1,379,723	3,089,532	1,355,258	1,040,106	2,395,364	27.6%	129.0%
9/1/05	1,488,500	1,744,005	3,232,505	1,407,318	3,151,323	1,383,443	1,040,106	2,423,549	58.1%	130.0%
9/1/06	1,518,270	1,778,885	3,297,155	1,435,464	3,214,349	1,410,468	1,055,106	2,465,574	58.2%	130.4%
9/1/07	1,548,636	1,814,463	3,363,099	1,464,174	3,278,636	1,436,098	1,074,566	2,510,664	58.3%	130.6%
80/1/6	1,579,608	1,850,752	3,430,361	1,493,457	3,344,209	1,465,080	1,098,236	2,563,316	58.3%	130.5%
60/1/6	1,611,201	1,887,767	3,498,968	1,523,326	3,411,093	1,497,430	1,115,686	2,613,116	58.3%	130.5%
01/1/6	1,643,425	1,925,523	3,568,947	1,553,793	3,479,315	1,527,640	1,137,086	2,664,726	58.3%	130.6%
9/1/11	1,676,293	1,964,033	3,640,326	1,584,868	3,548,902	1,555,680	1,162,099	2,717,779	58.3%	130.6%
9/1/12	1,709,819	2,003,314	3,713,133	1,616,566	3,619,880	1,586,430	1,185,349	2,771,779	58.3%	130.6%
9/1/13	1,744,015	2,043,380	3,787,395	1,648,897	3,692,277	1,619,525	1,211,934	2,831,459	58.2%	130.4%
9/1/14	1,778,896	2,084,248	3,863,143	1,681,875	3,766,123	1,649,775	1,236,334	2,886,109	58.3%	130.5%
9/1/15	1,814,474	2,125,932	3,940,406	1,715,513	3,841,445	1,682,080	1,258,291	2,940,371	28.3%	130.6%
9/1/16	1,850,763	2,168,451	4,019,214	1,749,823	3,918,274	1,716,080	1,288,104	3,004,184	58.2%	130.4%
9/1/17	1,887,778	2,211,820	4,099,598	1,784,819	3,996,640	1,751,400	1,309,991	3,061,391	58.3%	130.5%
9/1/18	1,925,534	2,256,057	4,181,590	1,820,516	4,076,572	1,787,650	1,334,401	3,122,051	58.3%	130.6%
61/1/6	1,964,045	2,301,178	4,265,222	1,856,926	4,158,104	1,824,425	1,360,801	3,185,226	58.3%	130.5%
9/1/50	2,003,325	2,347,201	4,350,527	1,894,065	4,241,266	1,861,113	1,389,251	3,250,364	28.3%	130.5%
9/1/21	2,043,392	2,394,145	4,437,537	1,931,946	4,326,091	1,898,300	1,414,456	3,312,756	28.3%	130.6%
9/1/22	2,084,260	2,442,028	4,526,288	1,970,585	4,412,613	1,935,706	1,446,556	3,382,263	58.3%	130.5%
9/1/23	2,125,945	2,490,869	4,616,814	2,009,996	4,500,865	1,973,050	1,474,838	3,447,888	58.3%	130.5%
9/1/54	2,168,464	2,540,686	4,709,150	2,050,196	4,590,883	2,012,250	1,504,300	3,516,550	58.3%	130.6%
9/1/25	2,211,833	2,591,500	4,803,333	2,091,200	4,682,700	2,055,281	1,533,700	3,588,981	58.3%	130.5%
9/1/56		2,643,330	4,899,400	2,133,024	4,776,354	2,096,556	1,563,600	3,660,156	58.3%	130.5%
9/1/27	2,301,191	2,696,196	4,997,388	2,175,685	4,871,881	2,135,781	1,598,700	3,734,481	58.3%	130.5%
9/1/28	2,347,215	2,750,120	5,097,335	2,219,199	4,969,319	2,177,663	1,628,400	3,806,063	58.3%	130.6%
67/1/6		2,805,123	5,199,282	2,263,582	5,068,705	2,221,613	1,662,700	3,884,313	58.3%	130.5%
9/1/30	2,442,042	2,861,225	5,303,268	2,308,854	5,170,079	2,267,044	1,696,000	3,963,044	58.3%	130.5%
9/1/31	2,490,883	2,918,450	5,409,333	2,355,031	5,273,481	2,313,369	1,728,000	4,041,369	58.3%	130.5%
9/1/32	2,540,701	2,976,819	5,517,520	2,402,132	5,378,951	ı	4,123,400	4,123,400	58.3%	130.4%
	\$58,040,751	\$68,003,592	\$126,044,343	\$54,875,224	\$122,878,816	\$51,522,193	\$42,521,519	\$94,043,712	1	

(1) Maximum Special Tax revenues from levy of Special Taxes on Developed Property and Near Term Property, as identified in the Appraisal, at Assigned Special Tax rates assuming Near Term Property is developed as planned.

(2) Maximum Special Taxes from levy of Special Taxes on Undeveloped Property at Assigned Special Tax rates for Developed Property is developed as planned.
 (3) Total estimated Special Taxes from levy of Special Taxes on Developed and Near Term Property less Administrative Expenses estimated based on Administrative Expenses estimated based on Administrative Expenses estimated based on Administrative Expenses estimated based on Administrative Expense Cap (as defined in the Indenture).
 (5) Annual debt service on the Prior Bonds.
 (6) Annual debt service on the Bonds (preliminary, subject to final pricing).
 (7) Net Special Taxes from Developed and Near Term Property divided by Total Debt Service.
 (8) Total Net Special Taxes divided by Total Debt Service.

No assurance can be given that the estimated values, amounts and allocations shown in Table 2 and Table 3 will conform to those which are ultimately realized. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes." The District has not undertaken to commission annual appraisals of the market value of property in the District for purposes of its Annual Reports pursuant to the Continuing Disclosure Agreement, and information regarding property values for purposes of a value-to-lien analysis with respect to such property which may be contained in such reports will be based on assessed values as determined by the County Assessor. See Appendix F for the form of the Continuing Disclosure Agreement.

The Teeter Plan

The County has elected to include special taxes levied within community facilities districts within the Teeter Plan method of apportionment and distribution of taxes collected by the County for local government agencies. Pursuant to the Teeter Plan the County apportions to the local agencies 100% of the amount of the taxes which are levied regardless of the amount collected from property owners. The County retains all penalties and interest which are collected with delinquent taxes. Thus, so long as the Special Taxes levied on taxable property within the District are subject to the Teeter Plan, the School District will receive 100% of the Special Taxes which are levied in each fiscal year.

The Special Taxes are allocated and distributed to the School District in installments as they are collected, beginning in November and ending in January with respect to the first installment of the Special Taxes which is due on December 10 of each year, and beginning in March and ending in May with respect to the second installment of the Special Taxes which is due on April 10 of each year.

The District receives reports from the Tax Collector regarding delinquent Special Taxes in February and June of each year. In late June of each year, the District receives a partial advance of estimated delinquent Special Taxes for the fiscal year. In the third week of July of each year, the District receives a final distribution of all delinquent Special Taxes levied for the preceding fiscal year.

The District must comply with the following requirements, among others, in order to have the Special Taxes apportioned and distributed pursuant to the Teeter Plan: (a) it may not separately collect Special Taxes before August 1 following the end of each tax year and (b) if it collects Special Taxes separately after July 31 in any tax year, it must collect penalties and interest at the correct rates (i.e., 10% plus 1.5% of the principal amount per month after June 30) and forward such amounts together with the delinquent Special Taxes to the Tax Collector.

The above-mentioned prohibition on the District separately collecting Special Taxes before August 1 following the end of each tax year could preclude the District from commencing Superior Court foreclosure proceedings to collect delinquent Special Taxes before that date. The District has covenanted, however, that under certain circumstances it will commence such foreclosure proceedings by October 1 following the close of the fiscal year in which the delinquent Special Taxes were due. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

No assurance can be given that the County will continue to include special taxes levied within community facilities districts in the Teeter Plan, and the County could decide to discontinue the inclusion of such special taxes in the Teeter Plan at any time, or to discontinue the Teeter Plan in its entirety. The County has never discontinued the Teeter Plan with respect to any participating agency. See "SPECIAL RISK FACTORS - Teeter Plan Termination."

THE DISTRICT

Location

The District consists of approximately 2,149 gross acres of partially developed land which are located in the southwest part of the School District. The School District is located along of the San Diego Freeway (Interstate 5) in Southern Orange County approximately 60 miles southeast of Los Angeles and approximately 30 miles southeast of Santa Ana, the county seat.

Summary of Formation Proceedings

Pursuant to the Act, on May 21, 1990, the Board of Trustees of the School District (the "Board of Trustees") conducted public hearings and adopted resolutions establishing the District and its boundaries and approving the rate and method of apportionment of special taxes for the District. The Board of Trustees also adopted a resolution determining the necessity of the District incurring a bonded indebtedness in an amount not to exceed \$10,000,000. Both of these resolutions called a special election to submit propositions to authorize the levy of the Special Taxes and incurring the bonded indebtedness to the qualified voters of the District. On June 19, 1990, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$10,000,000 and approved the levy of the Special Taxes on taxable property in the District to pay the principal of, and interest on, such bonded indebtedness.

On April 26, 1999, the Board of Trustees adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the District. At a special election held on June 14, 1999, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 and approved an Amended and Restated Rate and Method of Apportionment of Special Taxes (the "Rate and Method of Apportionment of Special Taxes") to pay the principal of and interest on the Bonds of the District and to pay for certain services to be provided within the District. See Appendix C. The purpose of the indebtedness to be incurred is to finance the acquisition or construction of various public school facilities located in or serving the District as specified therein. On June 15, 1999 an amended Notice of Special Tax Lien was recorded in the office of the County Recorder of the County.

Rate and Method of Apportionment of Special Taxes

The Rate and Method of Apportionment of Special Taxes for the District is contained in Appendix C hereto. The Special Taxes were initially levied in the District for payment of debt service on the Bonds in fiscal year 2002-03. The Special Taxes were levied on parcels of developed property in the District in fiscal year 2000-01 and fiscal year 2001-02 to pay administrative expenses and costs associated with the acquisition and construction of school facilities for the District.

Pursuant to the Rate and Method of Apportionment of Special Taxes, the Special Tax will be levied in each fiscal year, commencing in fiscal year 2002-03, on parcels of taxable property in the District to pay debt service on the Bonds and any Parity Bonds, including the Bonds, as described below. The terms appearing below with initial letters capitalized are defined terms in the Rate and Method of Apportionment of Special Taxes.

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of

Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Expected Tax for Undeveloped Non-Residential Property, respectively;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel; and

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

The Assigned Special Tax for each Land Use Class for fiscal year 2002-03 is shown in the following table.

Assigned Special Taxes for Developed Property and Taxable Senior Housing Property For Fiscal Year 2002-03

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3496 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.0.3496 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0.635 per square foot of Non-Residential Floor Area.

The Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property for fiscal year 2002-03 was equal to \$0.1772 per square foot of the Assessor's Parcel. On each July 1, commencing on July 1, 2003, the Assigned Special Tax and the Backup Special Tax will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

The Maximum Special Tax for Undeveloped Property for Fiscal Year 2002-03 was equal to \$6,555.08 per acre. On July 1, 2002 and on each July 1 thereafter, the Maximum Special Tax for Undeveloped Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

No Special Tax will be levied on up to 1,230.74 acres of Property Owner Association Property, Public Property and/or Religious Property and up to 206.6 acres of Golf Course Property. Also, no Special Tax will be levied on up to 66.02 acres of Senior Housing Property.

The Rate and Method of Apportionment of Special Taxes contains provisions allowing partial prepayment and prepayment in full of the obligation of parcels of taxable property in the District to pay the Special Taxes.

The above discussion is only a summary of some of the operational sections of the Rate and Method of Apportionment of Special Taxes. Investors should rely on this summary only as an aide to a careful review of the Rate and Method of Apportionment of Special Taxes which is contained in Appendix C hereto.

No assurance can be given that developers of property within the District or homeowners will be able and willing to pay the Special Taxes which will be levied on properties within the District. The ability and willingness of such developers to pay such Special Taxes will be lessened if the developers are unable to construct and sell residences and commercial and industrial buildings as currently planned. A delay in the construction and sale of residences and commercial and industrial buildings within the District would have a significant adverse effect on the ability and willingness of the developers to pay the Special Taxes levied on properties within the District. See "THE DEVELOPMENT PROJECT - Property Owners and Developers".

The Improvement Area

The Board of Trustees of the School District has conducted proceedings pursuant to the Act to designate Improvement Area No. 2002-1 over portions of the undeveloped property in the District (the "Improvement Area") for the purpose of issuing not to exceed an additional \$50,000,000 of bonds of the District (the "Improvement Area Bonds") for the purpose of financing certain road and other facilities for the City of San Clemente and additional school facilities of the School District. The Improvement Area includes all of the property in the District except the property in Village I, Village II and the Business Park of the Talega Project. If the Improvement Area Bonds are issued, those bonds will be secured by special taxes levied on property in the Improvement Area which will have a lien on a parity with the lien of the Special Taxes which are levied on such property to pay debt service on the Prior Bonds and the Bonds. See "SECURITY FOR THE BONDS - The Improvement Area." Talega Associates plans to request the issuance of the Improvement Area Bonds in the approximate amount of \$40,000,000 in the fourth quarter of 2003.

Environmental Review

The Board of Supervisors of the County approved and certified a Final Environmental Impact Report with respect to the Talega Project in compliance with the California Environmental Quality Act (Public Resources Code Section 21000, et seq. ("CEQA") on May 4, 1988. The City Council of the City approved and certified a Final Environmental Impact Report with respect to the Talega Project on August 26, 1988. Since then, the City Council has approved four separate addenda to the Final Environmental Impact Report with regard to subsequent development approvals. The most recent addendum was approved on June 16, 1999 in connection with the approval of the joint powers agreement creating the Talega Joint Planning Authority. Pursuant to CEQA, both the City and the County imposed a series of mitigation measures in connection with the development of the Talega Project to eliminate or reduce to a level of insignificance many significant adverse impacts associated with the development. As to those significant impacts which the City and the County determined could not be eliminated or reduced to a level of insignificance, statements of overriding considerations were adopted pursuant to CEQA finding that the beneficial aspects of the project outweighed the significant adverse impacts which could not be eliminated or reduced by mitigation measures.

On December 12, 2001, the City approved a supplement to its Final Environmental Impact Report, in compliance with CEQA, in connection with the third amendment to the specific plan for the portions of the Talega Project which are located in the City (SPA 98-05). This supplement to the Final Environmental Impact Report was also approved by the Board of Directors of the Talega Joint Planning Authority on December 17, 2001. See "THE DEVELOPMENT PROJECT - Development Approvals."

Talega Associates believes that full compliance has been had with CEQA with respect to the land use entitlements granted by the City and the County to date and that the statutory period within which a court action or proceeding could be filed challenging either the City's or the County's compliance with CEQA with respect to such entitlements has expired.

It is possible, however, that future discretionary approvals which are necessary to complete the development of the property within the District will necessitate further compliance with the requirements of CEQA. Challenges to such discretionary approvals could affect the rate of development within the District. See "SPECIAL RISK FACTORS - Failure to Develop."

Water Supply

The Water District. The Water District is a constituent Agency of the Municipal Water District of Orange County ("MWDOC"), a wholesale importer of water from the Metropolitan Water District of Southern California ("MWD") and, as such, is entitled to receive water from available sources of MWD. These sources normally include a blend of water imported from the Colorado River and from Northern California. The purpose of MWDOC and MWD has been to deliver water to those member agencies which are connected to their respective distribution systems in amounts sufficient to meet their demands. There is no priority of entitlement for such delivery. In times of reduced imported water, it is assumed that all member agencies will receive a pro rata share based on previous deliveries.

The Water District has sufficient treated and untreated water capacity and transmission capacity to supply the expected development needs of the Water District. Efforts are currently underway to provide additional water supplies for the Water District from sources other than MWD. Treated water is supplied to the Water District through the Allen-McColloch Pipeline ("AMP"). In 1994, MWD purchased the capacity of the Water District and twelve other agencies in the AMP and guaranteed to supply the peak weekly water demands of these agencies from the AMP or other facilities which MWD would build. The Water District's capacity through the turnout on the AMP from which it takes delivery of treated water is 81,066 acre feet per year ("AFY"). An acre foot is approximately 326,000 gallons.

Treated water is also delivered to the Water District through the East Orange County Feeder No. 2 ("EOCF No. 2") and the Aufdenkamp Transmission Main ("ATM") to the Water District's Aufdenkamp Connection Transmission Main. The Water District has a 10,134 AFY capacity share in the EOCF No. 2 and ATM treated water systems.

In addition, untreated water could be supplied from MWD's Santiago Lateral through the Baker Aqueduct, formerly called the Santiago Aqueduct Untreated Water System, which ends at the Baker Filtration Plant in the Los Alisos Water District (the City of Lake Forest). The Baker Filtration Plant is an inactive facility. The Water District has 18,379 AFY of capacity in the Baker Aqueduct. However, the Water District does not, currently, have a connection to the Baker Aqueduct. Table 4 below presents the Water District's current and potential future sources of water supply.

Table 4 Santa Margarita Water District Current and Future Water Supply Sources

Existing Treated Wat	er Supply Sources		Future Water S	Supply Sources
East Orange County Feeder	Allen-McColloch		Baker Aqueduct	Phase III
No. 2 and ATM (AFY)	Pipeline (AFY)	Total (AFY)	(AFY)	Augmentation (AFY) ⁽¹⁾
10,134	81,066	91,200	18,379	14,405

This will be an MWD facility which will augment the supply from the Allen-McColloch Pipeline. Source: The Water District.

In addition to these sources of supply, the Water District is investigating alternative water supply sources, including, wastewater reclamation, groundwater and seasonal storage. It is anticipated that these sources will help supplement the Water District's existing water supply sources to meet the ultimate peak demand of the Water District. The Water District makes internal allocations of the above described capacities (both existing and under construction) to various improvement districts, including Improvement District No. 7 which overlies the District.

Metropolitan Water District. MWD is a public agency created in 1928 by vote of the electorates of 13 Southern California cities. MWD's primary purpose is to provide a supplemental supply of water for domestic and municipal uses at wholesale rates to its member agencies. MWD is comprised of 27 member public agencies, including 14 cities, 12 municipal water districts (including MWDOC) and one county water authority. In all, the residents of more than 300 cities and numerous unincorporated communities are served by MWD's member agencies. Member agencies request water from MWD at various delivery points within MWD's system and pay for such water at uniform rates established by MWD's Board of Directors for each class of service. MWD's water is a supplementary source for its members and no member is required to purchase water from MWD.

MWD obtains its water supply from two primary sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the California Aqueduct. The Colorado River Aqueduct was MWD's original source of water. Owned and operated by MWD, the Colorado River Aqueduct transports water from the Colorado River 242 miles to its terminus at Lake Mathews in Riverside County. After deducting evaporation and seepage losses in transporting and storing water, the amount currently available for delivery by MWD from the Colorado River is approximately 1.2 million acre-feet a year.

MWD's other major source of water is the State Water Project which is owned by the State and operated by the Department of Water Resources. This project transports water from the Sacramento-San Joaquin Delta in Northern California (the "Delta") via the California Aqueduct to four delivery points near the northern and eastern boundaries of MWD. The total length of the California Aqueduct is 444 miles. MWD is one of 29 agencies which have contracted for water service from the State Water Project. MWD's water supply contract, which entitles it to 2,011,500 acre-feet of water annually, expires in the year 2035, but is expected to be extended.

MWD's service area encompasses approximately 5,168 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura in Southern California. More than 17 million people currently reside in MWD's service area. It is estimated that by the year 2020 the six-county area will have a population of 25.2 million people, representing a total increase of 6.7 million over 1996 or an average gain of 282,000 persons per year. Of the total population of the six counties, over 85 percent live within MWD's service area.

Approximately two-thirds of the water supply for MWD's service area is imported water, received by MWD from the Colorado Aqueduct and the State Water Project, and by the City of Los Angeles from its Los Angeles Aqueduct. The balance of the water within the region is produced locally, primarily from groundwater supplies and surface water runoff and, to a lesser extent, from water transfer and exchange programs. MWD currently provides nearly 60 percent of the water used within its service area. Some agencies, including the Water District, rely on the MWD supply for 100 percent of their water needs.

MWD estimates that it can meet its member agency's demands over the next 10 years, even under severe drought conditions. As demands grow, however, it will be necessary to make additional resource and infrastructure improvements in order to maintain reliability and high water quality for the next 20 to 30 years.

MWD projects that during wet and normal years, its supplies should be sufficient to satisfy the demands of its member agencies. However, projected dry year demands and supplies indicate that MWD could encounter supply shortfalls during dry years in the future. A dry year is expected to occur once every 10 years.

MWD expects to be able to meet dry year demands and reliability goals through the year 2020. However, MWD's strategy for meeting these demands and goals makes certain assumptions about water resources development and conservation for the region. MWD cautions that fulfillment of some strategies requires completion of capital improvements and other actions by other agencies within and outside the region, and that since these agencies are not under MWD's direct control, it can give no assurance that any assumed water resource development or capital improvements will occur.

Wastewater Treatment and Disposal

The Water District is a member of the South Orange County Wastewater Authority ("SOCWA"), a joint powers authority, which owns and operates sewage treatment and ocean outfall facilities located between the coastal communities of Dana Point and Capistrano Beach. The Water District presently has 2.25 million gallons per day ("MGD") of capacity in the present 13.0 MGD SOCWA treatment plant. The Water District has acquired 2.25 MGD of capacity in the Moulton Niguel Water District No. 3A sewage treatment facility. SOCWA also has a 64.4 MGD pumped capacity ocean outfall which provides adequate capacity for its member agency needs. The Water District has 28.67 MGD of capacity in this outfall.

Sewage is conveyed from the Water District's collection system to the SOCWA and Moulton Niguel Water District treatment plants through the 15.7 MGD Oso-Trabuco Interceptor Sewer, jointly owned by the Water District and Moulton Niguel Water District, which operates and maintains it. The Water District owns capacity of 9.4 MGD in the Oso-Trabuco Interceptor.

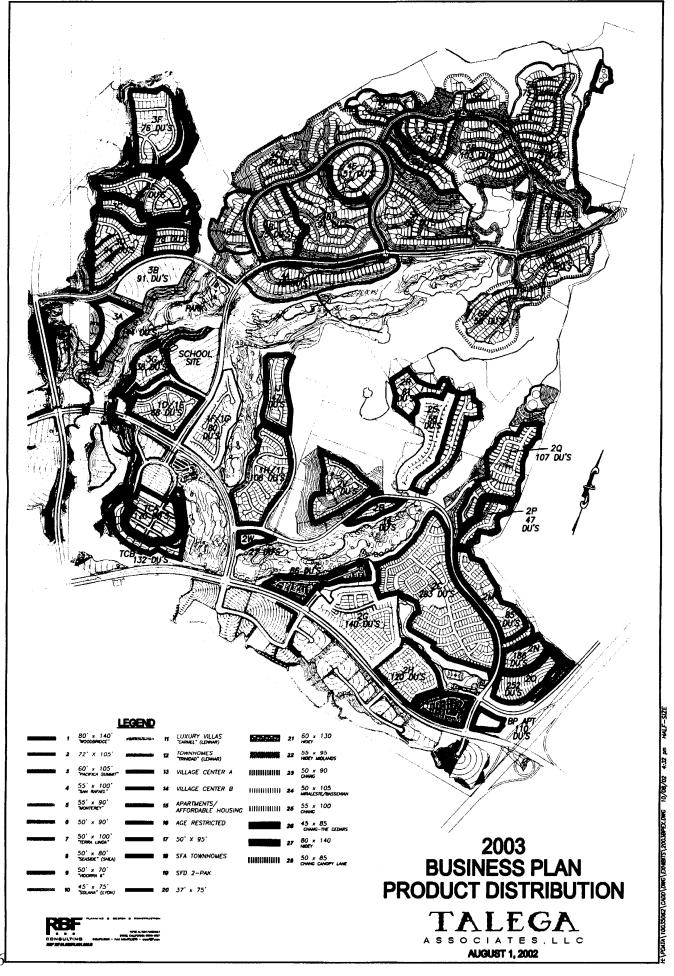
The Water District has constructed an additional subregional treatment plant (the Chiquita Water Reclamation Plant), located in Chiquita Canyon near San Juan Creek, which utilizes the SOCWA ocean outfall for effluent disposal. This plant currently has a treatment capacity of 6.0 MGD. This plant serves Improvement District Nos. 2, 3, 4, 7 and 8 as well as several portions of Trabuco Canyon Water District, a neighboring water district, under a contractual agreement. The Chiquita Water Reclamation Plant has been certified by the Regional Water Quality Control Board to 21 MGD which is sufficient to meet the projected ultimate needs of the Water District, based on current master plan information, through approximately the year 2010. Other wastewater treatment plants such as the OSO Plant, the SOCWA treatment plant and the Moulton Niguel Water District treatment plant all operate independently of the Chiquita Water Reclamation Plant. The Chiquita Water Reclamation Plant has common capacity allocated at 19.49 MGD, which in the opinion of the Water District should meet expected needs until the year 2025.

As outlined above, the Water District currently has 13.5 MGD of total available treatment capacity. The Water District's historical wastewater flow rates are as set forth in Table 5 below.

Table 5
Wastewater Flow Rate - Santa Margarita Water District

Average Daily Wastewater
Flow Rate (MGD)
10.42
10.04
9.51
8.93
8.02

Source: The Water District.



THE DEVELOPMENT PROJECT

The information provided in this section has been included because it may be considered relevant to an informed evaluation and analysis of the Bonds and the District. Currently, a majority of the land within the District is owned by Talega Associates, LLC ("Talega Associates"). As discussed below, since December, 1998, Talega Associates has sold tracts to ten home building entities and has sold parcels to seven commercial building entities which, together with Talega Associates, are hereinafter referred to as the "Developers." No assurance can be given that development of the land within the District will occur in the manner or in the configuration or to the density described herein, or that any landowner or the Developers described herein will or will not retain ownership of any of the land within the District. The Bonds and Special Taxes are not personal obligations of any landowners or the Developers. The Bonds are secured solely by the Special Taxes and amounts on deposit in certain of the funds and accounts maintained by the Fiscal Agent under the Indenture. See "SECURITY FOR THE BONDS" and "SPECIAL RISK FACTORS."

Information contained in this section (except under the caption "Market Absorption Study") regarding the Developers, the intended phasing of development of the Talega Project and other matters has been provided by the Developers and the District and the School District make no representations as to the accuracy of such information.

The Talega Project includes property in Area 2C of Village II which will be developed into 283 age-restricted residential units and which is exempt from the levy of Special Taxes. Some of the tables in this section include these age-restricted units in residential unit counts for the Talega Project.

General

The Talega Project area contains 3,510 acres situated in the inland area of the City of San Clemente generally north of Avenida Pico. Currently, 2,102 acres of the property are located in the City of San Clemente and 1,408 acres are located in the County of Orange within the City's sphere-of-influence (the "Sphere-of-Influence Area"). The project site consists of valleys, ridges, hilly grasslands and partially improved areas. Grading and development activity has occurred in the southern portions of the project. Grading has been approved for other portions of the project both in the City and the Sphere-of-Influence Area and grading activity is underway.

Elevations range from a high of approximately 910 feet above mean sea level (MSL) in the northern portion of the project area to a low of approximately 210 feet above MSL in the southwestern portion of the site. The Segunda Deshecha drainage crosses the site in a northeasterly to southwesterly direction, with several small tributary drainages connecting to this primary drainage.

The Master Land Use Plan of the Talega Specific Plan (SPA 98-05) provides for a mix of residential, recreational, institutional (school), business park, commercial and open space land uses. The Village Center, located in the southwestern portion of the project site, will include a complementary mix of residential, commercial, business park, a portion of the golf course and open space land uses. Additional business park uses are planned south of Avenida Pico in the southern portion of the project. A championship golf course extends through the northern and eastern portions of the community to serve as the project's recreation corridor. Three neighborhood park sites and a public school site are also expected to be provided within the project and areas of natural open space, including a large open space reserve, are located in and around the periphery of the project.

To accommodate a wide range of residential densities, six residential villages in addition to the Village Center are planned. Village I is comprised of approximately 482 acres and includes several residential subareas and open space areas located north of the Village Center, a neighborhood park site, the school site and portions of the golf course located within the City. Village II includes portions of the golf course, a neighborhood park, and open space and residential units on approximately 490 acres located primarily within the Sphere-of-Influence

Area. Villages III, IV, V and VI, totaling approximately 112 acres, 151 acres, 337 acres and 245 acres, respectively, are located in the northern portion of the project and are generally designated for residential and open space uses. The Village Center includes approximately 143 acres and the Business Park totals approximately 128 acres, including 76.3 net acres of open space. Construction of the golf course has been completed and it is open for play. The neighborhood park and open space areas in Village II are completed and available to the public. The elementary school in Village I is under construction.

Each residential Village is further divided into subareas for the purpose of assigning acres and residential dwelling units. The current Village and subarea boundaries are approximate and are subject to revision during subsequent levels of project entitlement. Boundary adjustments will be reviewed as part of the Area Plan and/or tentative tract map review process and will be subject to City approval.

The residential component of the development plan accounts for approximately 964 acres (approximately 623 acres of which are located in the City and approximately 341 acres of which are located in the Sphere-of-Influence Area). Residential uses will be accommodated in four density categories: low density, low-medium density, medium density and medium-high density with densities generally decreasing with distance from the Village Center. A maximum of 2,689 units are designated for development within the City and a maximum of 1,811 units are designated for development in the Sphere-of-Influence Area. Table 6 below contains a residential land use summary for the project as authorized by the Specific Plan.

Table 6
Community Facilities District No. 90-2 (Talega)
Residential Land Use Summary

				Acres	Dwelling	Units
Resid	lential Designation	Density (units per gross acre)	City	Sphere of Influence	City	Sphere of Influence
L	Residential Low	0-4.5 du/ac	262.5	22.8	894	79
LM	Residential Low Medium	4.5 - 7 du/ac	251.2	143.1	983	525
M	Residential Medium	7 - 15 du/ac	78.9	111.4	479	468
МН	Residential Medium High	15 - 24 du/ac	30.2	57.5	333	629
Н	Residential High	40 du/ac	0	5.8	0	110
		Subtotals	622.8	340.6	2,689	1,811
		Totals	9	63.4	4,	,500

Source: Specific Plan Amendment (SPA 98-05).

Talega Associates current business plan anticipates fewer dwelling units (i.e., 3,866) than the total number shown in Table 6. The actual number of dwelling units constructed in each residential subarea will be determined during the Area Plan and tentative tract map level of project implementation. For subareas which do not receive the full maximum allowable number of residential units, the "lost units" may be transferred to another subarea as part of the Area Plan or tentative tract map process. Such transfers may occur without requiring an amendment to the Specific Plan provided that the residential density of the receiving area does not increase beyond the maximum density of its residential designation and the minimum number of open space acres is not reduced. Low density areas will not exceed 4.5 dwelling units per gross acre ("du/ac"); Low Medium density areas will not exceed 7.0 du/ac; Medium density areas will not exceed 15.0 du/ac; Medium/High density areas will not exceed 24.0 du/ac; and High Density areas will not exceed 40.0 du/ac. All dwelling unit transfers must be approved by the City. The 3,886 dwelling units now planned to be developed in the Talega Project include 283 age restricted units that are not subject to the levy of Special Taxes.

The commercial/business areas will be located in the Village Center, south of Avenida Pico, and near the Far East Alignment of the proposed Foothill Transportation Corridor. Approximately 9.78 acres of property is designated for commercial use. Approximately 68.6 acres of property is designated for business park use.

As part of the entitlement process for the Talega Area Plan, Talega Associates and the City reached the following agreements regarding the project's obligations pursuant to the Housing Element of the City's General Plan with respect to affordable housing:

- (a) Prior to issuance of the 500th building permit in the Talega Project, Talega Associates will enter into an option agreement with the City which will offer to dedicate 10 acres of land for affordable, multi-family housing development to a non-profit developer acceptable to the City or to the City, at the City's discretion. The option agreement was entered into on June 7, 2000, and Jamboree-Tal Housing, L.P., the City's assignee, has exercised the option as to portions of the site;
- (b) The site will be delivered in a mass-graded condition with utilities extended to the site, and a crossfall gradient of no greater than 2%, as soon as possible but not later than issuance of the 1,200th building permit. The grading has been completed;
- (c) This site must be able to accommodate a minimum of 186 apartment units with 50% of the units being three and four bedroom apartments; and
- (d) Talega Associates shall pay the development fees and charges identified on the Talega Affordable Housing Fee Matrix attached to Resolution No. 99-19 of the City Council.

Approximately two-thirds of the property, is designated for public facilities and open space uses. Table 7 below show the gross acreages of property which are designated for these uses.

Table 7
Community Facilities District No. 90-2 (Talega)
Public Facilities and Open Space Land Use Summary

Land	Use Designation	City	Sphere of Influence	Totals
Publi	c Facilities			
ES	Elementary School	15.0	0.0	15.0
P	Public and Private Parks ⁽¹⁾	29.1	20.2	49.3
RP	Regional Park	5.9	8.2	14.1
Subto	otal	50.0	28.4	78.4
Open	Space			
GC	Golf Course ⁽²⁾	183.2	44.5	227.7
os	Open Space	479.1	360.6	839.6
os	Talega Reserve ⁽³⁾	175.0	997	1,172
Subto	otal	837.3	1,402.1	2,239.3
Total		887.3	1,430.5	2,317.8

- (1) Approximately 21.5 acres will be designated for public parks. The remaining acreage will be used for private recreational facilities.
- (2) Approximately 46.2 acres of the golf course and approximately 53.9 acres of the open space are designated within the Village Center.
- (3) The Talega Reserve is not in the District.

Source: Specific Plan Amendment.

The 18-hole championship golf course, which is the predominate recreational feature of the development, extends through the eastern and northern portions of the Talega Project. The project includes an approximately 1,172 acre open space conservation area for which an easement was dedicated to The Rancho Mission Viejo Land Conservancy, a non-profit corporation, for the express purpose of preserving the reserve area for educational, ecological, recreational, scenic and conservation purposes.

Development Approvals

The City Council of the City approved the original "Champion Hills" Specific Plan for the portion of the Talega Project which is within the City on August 10, 1988. An amended Specific Plan referred to as the Talega Specific Plan (SPA 91-58) was approved by the City Council on July 1, 1992. The amendment was intended to bring the Specific Plan into compliance with the comprehensive General Plan, the Growth Management Program and the Urban Design Program. The City's General Plan was updated in May 1993, and generally reflected the approved 1992 Specific Plan. The Specific Plan was amended again in 1998 (SPA 98-03). This amendment allowed for variations in residential architecture and minor modifications to residential building setbacks in development standards. The City Council approved this second amendment to the Specific Plan on November 18, 1998.

In 1998, the first Area Plan for the Talega Project was submitted to the City. The purpose of an Area Plan is to establish more detailed development plans for portions of the overall project to expand upon and supplement the guidance provided by the Specific Plan. This Area Plan, which is for Planning Areas B, C, G, H and I and parts of Planning Areas D and E, covers a 713.2-acre portion of the project, including the Village Center, the golf course, two neighborhood park sites, an elementary school site, a portion of the business park area south of Avenida Pico, and various residential subareas and open spaces. The City Council approved this Area Plan (98-82) on March 17, 1999.

Implementation of the Specific Plan for other Planning Areas will require the preparation of additional Area Plans which must be approved by the Planning Commission and City Council prior to or concurrent with the approval of any tentative tract map, tentative parcel map, site plan, planned unit development and/or conditional use permit.

A third amendment to the Specific Plan (SPA 98-05), which was filed on September 30, 1998, was approved by the City Council on December 12, 2001. This amended plan responds to geotechnical issues, reduces grading quantities by more appropriately responding to the physical conditions of the site, and defines an updated development concept for the property. This amended plan anticipates annexation of the Sphere-of-Influence Area to the City and establishes development standards and phasing for buildout.

The portion of the project located within the Sphere-of-Influence Area is known as the Rolling Hills Planned Community. A Feature Plan was approved by the County Board of Supervisors in May 1988 and has been amended five times, most recently in July 2000. This fifth amendment to the Feature Plan (FPA 00-45) was submitted to eliminate the health facilities land use designation and expand two medium high density residential areas. The golf course area was redesigned and shifted northerly in order to incorporate elements of the drainage as an amenity in the golf course. The previous plan would have eliminated the drainage feature through grading and residential development.

Talega Associates has entered into development agreements with the County and the City and the Talega Joint Planning Authority. These agreements provide Talega Associates and the other Developers with a vested right, subject to certain exceptions, to develop the project in accordance with the land use regulations of the City and the County which were in effect at the time of the execution of the development agreements. The most recent of these agreements is the Amended and Restated Development Agreement among Talega Associates, the City and the Authority which was approved by the City Council on December 12, 2001 and by the Board of Directors of the Authority on December 17, 2001. See "SPECIAL RISK FACTORS - Development Agreement." A discussion of the principal features of this agreement is contained in the Appraisal. The City, the Authority and the County have reserved all of their police powers which cannot be limited by contract. Further, the City, the Authority and the County may adopt future land use regulations which may be in conflict with the land use regulations which were in effect on the dates of the development agreements which are designed to protect the public health and safety.

Annexation of Sphere-of-Influence Area

Pursuant to the Amended and Restated Development Agreement among the City, the Talega Joint Planning Authority and Talega Associates, prior to the issuance of any building permit for any lot within a tract within the Sphere of Influence Area, Talega Associates must file with the Orange County Local Agency Formation Commission ("LAFCO") a petition for the annexation of the tract and LAFCO must have certified that the petition is complete for the purpose of processing the annexation. The City is required by the agreement to cooperate in the processing and approval of the annexation petitions. The agreement contemplates that LAFCO's approval will be conditioned so that the annexation of any individual residential or commercial lot will occur after the date a building permit for a residential or commercial unit on the lot has been issued and before the date that a certificate of occupancy has been issued for a building on the lot or final inspection of the building has been approved by the Authority authorizing occupancy. The City, as the "conducting authority," will not

approve and order the annexation of any residential lot unless such a condition on annexation of the residential lot is approved by LAFCO. Talega Associates has filed annexation petitions with LAFCO for the annexation of the Business Park area, a portion of the golf course and most of the residential areas in Village II. As of August 1, 2002, 27 annexations totaling 496 acres had been completed.

Talega Joint Planning Authority

In order to insure that the City's development standards will be followed for all development approvals that will be approved for portions of the Talega Project which are located in the Sphere-of-Influence Area, the City and the County have entered into a joint exercise of powers agreement establishing the Talega Joint Planning Authority, a joint powers authority (the "Authority"). The Authority is authorized to exercise the police powers of the City and the County to regulate the planning and development of the Sphere-of-Influence Area. Specifically, the Authority will have jurisdiction over and power with respect to (1) the adoption and amendment of a general plan, specific plan, and zoning ordinance applicable to the property, (2) the power to process and approve, conditionally approve, and deny area plans, tentative and final subdivision maps, parcel maps, conditional use permits and variances, grading permits, site plans and/or architectural reviews . . . and similar development and building plans and permits, (3) the adoption, enforcement and implementation of requirements for the dedication of land, the levying and collection of development and building fees . . . and other exactions and charges imposed upon development and building, and (4) to enforce all federal, state and local laws, rules and regulations that are within the jurisdiction of the City or the County to enforce with respect to the matters referred to above.

The agreement incorporates existing land use regulations and development standards of the City, which are set forth in an exhibit thereto, to be applicable to the development and planning of the property on the effective date of the agreement (without the need for execution of any other document or the taking of any further action by the County, the City or the Authority). The agreement also provides (a) that with respect to certain tentative maps which were approved by the County before the effective date of the agreement, the powers of the Authority with respect to discretionary development standards shall be exercised in the manner the County exercises its authority on the effective date and (b) that, subject to certain exceptions and limitations, the Rolling Hills Feature Plan approved by the Board of Supervisors on May 4, 1998 shall be applicable to the development of the property.

The board of directors of the Authority consists of three members appointed by the City Council and two members appointed by the Board of Supervisors of the County. The agreement also established a planning commission to act as an advisory agency to the board of directors. The planning commission performs all of the functions that otherwise would be performed and has all of the duties and responsibilities that would be possessed by the Planning Commission of the City if the Sphere-of-Influence Area were located in the City's boundaries. The planning commission is comprised of five members, two of which are City staff members, two of which are County staff members and one of which will be a staff representative from the Orange County Fire Authority.

The agreement provides procedures for the issuance of building permits and occupancy certificates and the annexation of property to the City which are summarized as follows:

- (a) The Authority will not issue a building permit for any building (other than a model home) in the Sphere-of-Influence Area unless (i) a petition for annexation into the City has been certified as sufficient by LAFCO, and (ii) the City Manager has approved the phasing plan to be submitted by the master developer of the Talega Project (i.e., Talega Associates); and
- (b) The Authority will not authorize the permanent occupancy of model homes within any portion of the Sphere-of-Influence Area for which the annexation into the City has not been completed.

A petition for the annexation of property to a city will not be certified by LAFCO as being sufficient unless it satisfies certain conditions (i.e., the property must be contiguous to the city and within its sphere of influence, as established by LAFCO). As of October 1, 2002, petitions for the annexation of a total of 606.9 acres of land had been certified as sufficient. Pursuant to State law, if a petition is signed by the owners of all of the property to be annexed, LAFCO may approve the annexation without notice and hearing and without proceedings by the City, as conducting authority, to complete the annexation.

The agreement specifically provides that the Authority shall not have the power to implement or enforce the provisions of the City's municipal code or any regulation, rule, or official policy of the City adopted pursuant thereto, which implement the provisions of the Measure B growth control initiative. See "Growth Control Initiative" below. The agreement further provides that in regard to controls on the timing and phasing of development (whether based upon a limit on the number of residential building permits, such as exists under the City's municipal code, or otherwise), the powers of the Authority shall be exercised in the manner the County exercises its authority on the effective date of the agreement.

Development Plan

The development of the project is expected to occur in several phases and sub-phases which are based on establishing a balanced earthwork operation in each phase. Phasing of the development of the portion of the project which is located in the City began with development of the Village Center, a portion of the golf course and several residential subareas located north of the Village Center which had existing approved tentative or final maps. Phase II encompasses a majority of the southern Sphere-of-Influence Area north of Avenida Pico. One residential subarea and one golf course subarea located in the City and adjacent to the Sphere-of-Influence Area have also been developed as Phase II. Phase III consists of a neighborhood park site in the City, seven private park areas, the school site, and several residential subareas west of Avenida Talega. The remaining project area consisting predominantly of residential subareas will be developed as part of Phases IV, V and VI. Phase VII includes the proposed business park area south of Avenida Pico.

Table 8 below shows Talega Associates' estimate of the number of residential units of each type which Talega Associates expects to be developed in each Phase of the project.

Table 8
Community Facilities District No. 90-2 (Talega)
Expected Residential Units in Phases of Development

Density Category	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI	Phase VII	Totals
Low	47	59	245	246	158	0	0	755
Low Medium	256	453	114	0	238	166	0	1,227
Medium	0	491	235	117	0	0	302	1,145
Medium High	0	739	0	0	0	0	0	739
Totals	303	1,742	594	363	396	166	302	3,866

As of August 1, 2002, 303 homes had been built and sold in Phase I and 1,051 homes had been built and sold in Phase II.

Talega Associates' development plan is (and has been) to improve lots for single family detached homes to "blue top" condition and to sell such lots to merchant builders who will construct and sell homes thereon. Blue top condition refers to a parcel of property which has legal entitlements created by the approval of a tentative tract map or a site plan and which has been rough graded with streets cut out and individual lots terraced with utilities supplied to the property line only. Talega Associates' development plan is also (and has been) to improve parcels of land for single family attached and multifamily residential units to "super pad" condition and to sell such parcels to merchant builders who will construct such residential units thereon. Super pad condition refers to a mass graded parcel which has legal entitlements created by the approval of a tentative tract map or a site plan with no streets cut or terracing and with utilities supplied to the property line only.

As of August 1, 2002, merchant builders had commenced home production in 19 projects. Construction of the golf course has been completed and it opened for play on January 4, 2001. Construction of the clubhouse was completed in November 2001.

Property Owners and Developers

Talega Associates purchased all of the land, except the Talega Reserve, in the District (a total of 2,390 acres) in May 1997. The members of Talega Associates are Catellus Residential Group, Inc., Standard Pacific of Orange County, Inc. and JKS Holdings LLC.

Catellus Residential Group, Inc. ("Catellus"), is a wholly owned subsidiary of Catellus Development Corporation ("NYSE:CDX"). Catellus Development Corporation, formerly the Santa Fe and Southern Pacific Railway Land Company, is the entity that owns and manages the entire former railway real estate portfolio. With more than \$2,500,000,000 in assets, Catellus Development Corporation is one of the nation's premier diversified real estate development companies. The Company specializes in developing, managing, and investing in a broad range of product types including industrial, office, residential, retail and major urban development projects. It owns a portfolio of rental properties totaling 34.5 million square feet and one of the largest supplies of developable land in the western United States capable of supporting more than 41 million square feet of new commercial development and an estimated 10,400 residential lots and units. Catellus has broad experience in planning, developing and marketing large-scale mixed-use projects throughout the Western United States. In July 2000, Catellus sold the majority of its home-building assets to BHC, LLC for cash and a retained interest in BHC, LLC. See *BHC* below.

Standard Pacific of Orange County, Inc. ("Standard Pacific") is a wholly owned subsidiary of Standard Pacific Corp. ("NYSE:SPF"). Standard Pacific, one of the nation's largest homebuilders, has built homes for more than 50,000 families during its 36-year history. The Company focuses its efforts on constructing homes within a wide range of prices and sizes. Standard Pacific operates in some of the strongest housing markets in the country with operations throughout the major metropolitan areas in California, Texas, Arizona and Colorado. With its recent acquisitions of Westbrooke Homes and Colony Homes the Company has also entered the South and Central Florida markets. Standard Pacific is currently selling homes in 24 communities in Southern California.

JKS Holdings LLC is a privately held Connecticut limited liability company that was organized in 1997. In connection with the Talega Project, it has loan commitments from Starwood Opportunity Fund IV for \$20,000,000. Based in Phoenix, Arizona, the principals of JKS have over 50 years combined experience in real estate development and since 1976 have developed and built property with a value in excess of \$600,000,000.

Since December 1998, Talega Associates completed transactions with ten home building entities for the sale of tracts in the Talega Project. The builder entities which purchased these tracts are: BHC Residential, LLC, Shea Homes Limited Partnership, Tava Development Co., OBSLP Talega, LLC, Talega Village, LLC, Woodbridge Development, Inc., BRE Properties, Inc., Lennar Homes of California, William Lyon Homes, Inc.,

and Standard Pacific of Orange County, Inc. Table 9 below provides relevant information regarding the tentative tract numbers and number and size of lots which were purchased by each of these builders, the planning areas where these lots are located and the types of residences which are expected to be built on these lots.

Table 9
Community Facilities District No. 90-2 (Talega)
Sales to Builders

	Tentative	Planning	Number of	Min. Lot	Type of
Builder	Tract No.	Area	Lots/Units	Size/Density	Residence
BHC	15756	ID/E	68	5,000 s.f.	detached
	13686	IF/G	80	5,500 s.f.	detached
	15953	2M	85	3,500 s.f.	detached
	15954	2P	47	3,500 s.f.	detached
	14224	2S	28	6,600 s.f.	detached
	15955	2S	30	6,600 s.f.	detached
Shea	15798	2G	140	4,250 s.f.	detached
BRE	13898	20	252	25 units per acre	attached
	13872	BP-9	110	23 units per acre	attached
Lennar	13894	2I	105	12.8 units per acre	attached
	13878	2F	86	3,150 s.f.	attached
Lyon	15799	2H	120	3,150 s.f.	detached
_j -	15955	2R	16	9,567 s.f.	detached
	14224	2R	45	8,310 s.f.	detached
Standard Pacific	13683	1H/I	108	4,950 s.f.	detached
 	13684	1J	47	6,000 s.f.	detached
	13880	2V	62	6,300 s.f.	detached
	14226			•	
	and				
	15954	2Q	107	5,000 s.f.	detached
OBSLP/Standard	2000	- (,	
Pacific	16253	TCA	170	11 units per acre	attached
1 44-11-4	16253	TCB	132	7 units per acre	attached
Tava	13935	3G	38	5,000 s.f.	detached
Woodbridge	15868	2B	14	6,300 s.f.	detached
Talega Village ⁽¹⁾	15921	2C	70	4,500 s.f.	detached
141062 111160	15921	2C	75	4,750 s.f.	detached
	15967	2 C	41	N/A	attached
	15967				
	and				
	16213	2C	97	5,775 s.f.	detached
Total Lots/Units	10215		2,172	,	

The homes to be built in Tracts 15921, 15967 and 16213 are age-restricted units which are exempt from the levy of the Special Tax. These homes are being built by Standard Pacific.

Source: Talega Associates, LLC.

Lennar. Lennar Homes of California, Inc. ("Lennar") is a subsidiary of Lennar Corporation. Lennar is one of the largest home builders in California. Lennar's two projects in the Talega Project were Trinidad at Talega, which contained 105 attached homes ranging in size from 1,367 to 1,876 square feet with base sales prices ranging from \$246,000 to \$282,000, and Carmel at Talega, which contained 86 attached homes ranging in size from 2,014 to 2,380 square feet with base sales prices ranging from \$355,000 to \$360,000. Lennar's actual escrow closings for the sale of completed homes was: Trinidad - 60 through 2000 and 45 in 2001 and Carmel - 20 through 2000, 62 in 2001 and 4 in 2002.

Shea Homes. Shea Homes Limited Partnership ("Shea") is an operating division of J.F. Shea Co., Inc., a leader in the heavy construction industry, specializing in underground work. Shea is engaged in home building and mixed-use community development throughout California and in Denver, Colorado and Phoenix, Arizona. Shea's project in the Talega Project, Seaside at Talega, contained 140 single family detached homes ranging in size from 2,225 to 2,516 square feet with base sales prices ranging from \$396,000 to \$428,000. Shea's actual escrow closings for the sale of completed homes were: 68 in 2000, 68 in 2001 and 4 in 2002.

BHC. BHC Residential, LLC, a Delaware limited liability company ("BHC"), is owned by BHC Residential, Inc. BHC recently acquired the assets of the Merchant Housing Division of Catellus Residential Group, and is completing the build-out of four projects in the Talega Project: Terra Linda which contains 68 detached homes ranging in size from 2,406 to 2,839 square feet with base sales prices ranging from \$410,000 to \$446,000 (sold out); San Rafael which contains 80 detached homes ranging in size from 3,116 to 3,536 square feet with base sales prices ranging from \$516,000 to \$549,000 (sold out); Farralon Ridge which contains 132 detached homes ranging in size from 1,871 to 2,344 square feet with base sales prices ranging from \$415,000 to \$447,000; and Cantabria which contains 58 detached homes ranging in size from 2,842 to 3,680 square feet with base sales prices ranging from \$640,000 to \$676,000. Construction of the Farralon Ridge model homes was completed in February 2001 and construction of the model homes in the Cantabria project was completed in November 2001. BHC's actual and projected escrow closings for the sale of completed homes are: Terra Linda - 59 in 2000 and nine in 2001; San Rafael - 71 in 2000 and nine in 2001; Farralon Ridge - 53 in 2001, 68 in 2002 and 11 in 2003; Cantabria - 49 in 2002 and nine in 2003. BHC will finance the development and construction of its projects with a secured line of credit with Bank of America.

Standard Pacific. Information concerning Standard Pacific is provided above. Standard Pacific has four projects in the Talega Project which are sold out. These are: Pacifica which contained 47 detached homes ranging in size from 3,498 to 3,936 square feet with base sales prices ranging from \$557,000 to \$617,000; Monterey which contained 108 detached homes ranging in size from 2,692 to 3,251 square feet with base sales prices ranging from \$462,000 to \$490,000; Pacifica Summit which contained 62 detached homes ranging in size from 3,542 to 4,188 square feet with base sales prices ranging from \$582,000 to \$637,000; and Seagarden which contained 41 attached duplex and triplex homes ranging in size from 1,575 to 2,045 square feet with sales prices ranging from \$347,000 to \$398,000. Standard Pacific has four projects in the Talega Project which are currently selling: (1) Miraleste which contains 107 detached homes ranging in size from 2,746 to 3,218 square feet with sales prices ranging from \$585,000 to \$625,000; (2) Sandbridge, located in Talega Gallery, which contains 97 detached homes ranging in size from 2,400 to 3,475 square feet with sales prices ranging from \$517,000 to \$579,000; (3) Wavecrest, located in Talega Gallery, contains 70 detached homes ranging in size from 1,730 to 2,230 square feet with sales prices ranging from \$408,000 to \$444,000; and (4) Waterleaf, located in Talega Gallery, which contains 75 detached homes ranging in size from 2,050 to 2,475 square feet with sales prices ranging from \$475,000 to \$493,000.

Standard Pacific has five projects in the Talega Project which are proposed to be built over the next 12 months. These are: (i) two condominium projects in the Talega Village Center - Alassio which will contain 170 units ranging in size from 1,211 to 1,578 square feet, and Santalana which will contain 132 units ranging in size from 1,292 to 1,881 square feet with sales prices projected in the \$200,000 to \$300,000 range; (ii) Planning Area 3B, will contain 91 detached homes ranging in size from 2,101 to 2,441 square feet with sales prices projected in the \$400,000 range; (iii) Planning Area 3D, which will contain 94 detached homes ranging in size from 2,229

to 2,371 square feet with sales prices projected in the \$400,000 range; and (iv) Planning Area 3E, which will contain 73 detached homes ranging in size from 2,912 to 3,393 square feet with sales prices projected in the \$500,000 range.

Standard Pacific will finance the development and construction of its projects through a revolving line of credit with a syndicated group of banks of which Bank of America is the lead agent.

Lyon. William Lyon Homes, Inc. ("Lyon") is located in Newport Beach, California. It has completed one project in the Talega Project: Solana which contained 120 detached homes ranging in size from 1,676 to 2,097 square feet with base sales prices ranging from \$300,000 to \$355,000. It is currently building the Montellano Project which contains 61 detached homes ranging in size from 4,156 to 4,686 square feet with base sales prices ranging from approximately \$740,000 to approximately \$792,990. Lyon completed construction of the model homes in the Montellano project in January 2002. Lyon's actual and projected escrow closings for the sale of completed homes are: Solana - 91 in 2000 and 29 in 2001; Montellano - 30 in 2002 and 31 in 2003. Lyon will finance the development and construction of its project with loans from Guaranty Bank, Weyerhaeuser Realty Investors and Residential Funding Corporation.

<u>Woodbridge</u>. Woodbridge Development ("Woodbridge") is located in Mission Viejo, California. Its project in the Talega Project, Vizcaya at Talega, contained 14 detached homes ranging in size from 4,689 to 5,318 square feet with base sales prices ranging from \$930,000 to \$1,350,000. Woodbridge closed escrows for the sale of all 14 completed homes in 2001.

Talega Village LLC. Talega Village LLC is made up of two members, Catellus Residential Group and Standard Pacific. It has one project in the Talega Project which contains 283 homes in four neighborhoods which are restricted to buyers who are 55 years or older. These homes are exempt from the levy of the Special Tax. Three of the neighborhoods have 242 detached homes ranging in size from 1,747 to 3,634 square feet. Base sales prices are projected to range from \$398,000 to \$615,000. The project also contains a single family neighborhood containing 41 attached homes ranging in size from 1,578 to 2,045 square feet with base sales prices ranging from \$347,000 to \$398,000. Construction of homes is in the final phase. Actual and projected escrow closings for the sale of completed homes are: 100 in 2001, 110 in 2002 and 73 in 2003. These homes are being built by Standard Pacific. Talega Village has financed the development and construction of its projects through a revolving line of credit with a syndicated group of banks of which Union Bank is the lead bank.

<u>BRE Properties</u>. BRE Properties, Inc. ("BRE") (NYSE:BRE), with headquarters in San Francisco, California, is a self-administered equity real estate investment trust focused on the development, acquisition and management of multi-family apartment communities in 10 metropolitan markets in the western United States. As of December 31, 2001, BRE's portfolio had real estate assets with a book value of approximately \$1.7 billion that included 72 wholly or subsidiary-owned apartment communities, aggregating 20,419 units; and nine apartment communities in various stages of construction and development totaling 2,111 units. BRE has one 362-unit apartment project in Talega that will feature units averaging 971 square feet in size. The project will be built in two phases. Construction commenced in October 2001 and 252 units will be ready for occupancy beginning in November 2002.

<u>Tava Development.</u> Tava Development Co. ("Tava") is located in Irvine, California. Its project in Talega, Portofino at Talega, contains 38 detached homes ranging in size from 2,517 to 2,911 square feet with base sales prices ranging from \$488,000 to \$515,000. Construction of model homes has begun and completion is expected in November 2002. Tava projects escrow closings for the sale of all 38 completed homes in 2003. Tava will finance the development and construction of its project with a loan from Wells Fargo Bank.

<u>OBSLP.</u> OBSLP Talega LLC (OBSLP) is one of the holdings of Institutional Housing Partners (IHP) located in Irvine, California. IHP is one of the nation's largest investment firms dedicated primarily to providing equity financing for residential development. The firm invests institutional equity capital in for-sale real estate

projects located throughout the United States. IHP is the primary residential investment vehicle of several of America's largest financial institutions, including the California Public Employees' Retirement System (CalPERS). Standard Pacific has entered into an option agreement with OBSLP for the purchase of this land and as of August 1, 2002 it had closed escrow on two parcels which will be developed into 31 lots. Standard Pacific's two products for this property are Alassio at Talega which consists of 170 attached homes ranging in size from 1,211 to 1,578 square feet with base sales prices ranging from \$235,000 to \$281,000; and Santalana at Talega, which consists of 132 attached homes ranging in size from 1,292 to 1,881 square feet with base sales prices ranging from \$274,000 to \$319,000. Construction of model homes for both products began in September 2002. Standard Pacific's projected escrow closings for the sales of completed homes are: Alassio - 47 in 2003, 110 in 2004 and 13 in 2005; and Santalana - 46 in 2003 and 86 in 2004. Standard Pacific will finance the development and construction of these projects through a revolving line of credit with a syndicated group of banks of which Bank of America is the lead agent.

See Table 11 for information regarding homes sold and escrows closed by each of these residential builders.

Table 10 below shows Talega Associates' estimated absorption schedule for the sale of lots to home builders.

Table 10
Community Facilities District No. 90-2 (Talega)
Developer's Lot Sales Absorption Schedule

<u>Phase</u>	Total <u>Units</u>			<u>4</u>	Absorptio	n by Year	<u>:</u>			<u>Totals</u>
		<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	
l	303	155	148							303
2 A	748	451	14	283						748
2B	994			750	107	110			27	994
3	594					594				594
4	363						42	321		363
5	396								396	396
6	166						166			166
Village Center	<u>302</u>		_			<u>302</u>				<u>302</u>
Totals	3,866	606	162	1,033	107	1,006	208	321	423	3,866

50

Source: Talega Associates, LLC.

Table 11 below shows home sales activity by the residential builders.

Table 11 Community Facilities District No. 90-2 (Talega) Residential Builders' Home Sales

			Sales	Total	Homes	Escrow	Homes	
Builder	Project	Tract	Began	Units	Sold	Closed	Unsold	Apt.
ВНС	Terra Linda	15756	7/18/99	68	68	68	0	0
	San Rafael	13686	7/18/99	80	80	80	0	0
	Farralon Ridge	15953/15954	2/24/01	132	132	85	0	0
	Cantabria	14224/15955	9/29/01	58	56	28	2	0
Shea	Seaside	15798	10/23/99	140	140	140	0	0
BRE	Apartments ⁽¹⁾	13898	N/A	252	0	0	0	252
	Apartments(2)	13872	N/A	110	0	0	0	110
Lennar	Trinidad	13894	12/4/99	105	105	105	0	0
	Carmel	13878	12/11/99	86	86	86	0	0
Lyon	Solana	15799	8/27/99	120	120	120	0	0
-	Montellano	15955/14224	1/12/02	61	30	0_	31	0
Standard Pacific	Monterey	13683	7/30/99	108	108	108	0	0
	Pacifica	13684	7/30/99	47	47	47	0	0
	Pacifica Summit	13880	1/13/01	61	61	61	0	0
	Miraleste	14226/15954	10/6/01	107	91	29	16	0
OBSLP/Standard Pacific	TC - A (Alassio)	15763/ 16330	N/A	170	0	0	170	0
	TC – B (Santalana)	15763/ 16330	N/A	132	0	0	132	0
Woodbridge	Vizcaya	15868	6/24/00	14	14	14	0	0
Tava	Portofino	13935	N/A	38	0	0	38	0
Talega Village ⁽³⁾	Wavecrest	15921	3/30/02	70	29	0	41	0
<u> </u>	Waterleaf	15921	4/28/01	75	57	42	18	0
	Seagarden	15967	4/28/01	41	41	0	0	0
	Sandbridge	15967/16213	4/28/01	97	82	50	15	0
	Totals			2,172	1,354	1,051	456	362

⁽¹⁾ Represents the first phase which will be ready for occupancy in November 2002.

(2) Represents the second phase.

<u>Commercial Builders</u>. Since September 2000, Talega Associates completed transactions with seven commercial building entities for the sale of properties in the Talega Project. The building entities which purchased these properties are Makena Properties, Burke Talega LLC, Talega Industrial Park, Inc., Ewing Irrigation Products, Inc., Recodo Properties, Inc., NCC-Caliber V LLC and Pacific Packaging Machinery Co., Inc. Table 12 below provides relevant information regarding tentative tract or parcel map numbers, planning areas and the number of acres that were purchased by each of these builders.

The homes to be built in Tracts 15921, 15967 and 16213 are age-restricted units which are exempt from the levy of the Special Tax. These homes are being built by Standard Pacific.

Table 12
Community Facilities District No. 90-2 (Talega)
Sales to Commercial/Industrial Builders

Builder	Tentative Tract No.	Planning Area	Acres
Makena	2000-223 (Parcel Map)	BPI	5.37
Makena	13917	BP2B	6.31
Burke	14227 & 15917	BP1	13.78
Talega Industrial	16071	BP2A	4.46
Ewing	15917	BP2A	0.93
Recodo	2001-129 (Parcel Map)	BP4A	4.30
Caliber	16253	BP7	3.28
Pacific Packaging	15917	BP2A	1.88
Total Acres			40.31

Makena Properties ("Makena"), is based in Mission Viejo, California and owns and manages approximately 1,000,000 square feet of office and industrial buildings in Orange County. Makena played a large role in the disposition of 230 acres of land in Pacific Commercentre, Lake Forest and Phase I of the Talega Business Park. Makena purchased 5.37 acres in the Talega Business Park in December 2000. In June 2001, Makena subdivided this property into three parcels and a private access street and formed Makena Office Plaza Association to manage the property. Makena built four office buildings on Parcel 2 ranging in size from 4,320 square feet to 8,264 square feet. Makena sold Parcel 1 to Talega Medical Plaza which built a 26,800 square foot medical office building on the parcel. Makena also sold Parcel 3 to Kindercare which built a 9,890 square foot day care facility on the parcel. Makena purchased an additional 6.1 acre site in Phase II of the Talega Business Park in August 2001. Makena has entered into a long term lease with Quest Diagnostics Inc. (NYSE:DGX) for a 90,000 square foot build-to-suit building on this site.

Burke-Talega, LLC is a part of Burke Real Estate Group ("Burke"), which is headquartered in Santa Ana, California and has developed approximately 6,000,000 square feet of industrial and research and development ("R&D") buildings in the last 30 years. Burke purchased 13.78 acres in Talega Business Park in December 2000. Burke has completed construction of two office/flex-tech buildings totaling approximately 65,000 square feet, four multi-tenant buildings totaling approximately 50,000 square feet, and nine R&D buildings totaling approximately 102,000 square feet. Burke will not construct any more buildings on this property.

Talega Industrial Park, Inc. ("Talega Industrial"), is a developer based in Los Angeles. Talega Industrial purchased 4.46 acres in Talega Business Park in September 2000 and has developed San Clemente Technology Park at Talega, which contains 11 industrial buildings ranging from approximately 3,641 square feet to approximately 6,809 square feet in size. All of these buildings were sold before completion in September 2003.

Ewing Irrigation Products, Inc. ("Ewing") is a leading distributor of irrigation, industrial and golf products. Ewing is headquartered in Phoenix, Arizona and currently has 120 facilities in 15 states. Ewing

purchased 0.93 acres in Talega Business Park in September 2000. Ewing plans to construct an approximately 10,000 square foot building with a large yard area. Construction has begun and is expected to be completed by June2003.

Pacific Packaging Machinery Co., Inc. ("Pacific Packaging"), has relocated its operations to Talega Business Park from Covina. It designs and manufactures filling equipment for the packaging industry. Its clients include consumer product companies such as Kraft Foods, Procter & Gamble, Nabisco Foods and Neutrogena. Pacific Packaging purchased 1.88 acres in December 2000. It has completed construction of an approximately 27,000 square foot corporate headquarters building.

Recodo Properties, Inc. ("Recodo") is planning to develop two freestanding buildings totaling approximately 75,000 square feet. These buildings will be constructed as expansion space for Pick-Up Stix. Preliminary plans are being reviewed and construction is expected to commence in the first quarter of 2003.

NCC-Caliber V LLC ("Caliber"), based in Newport Beach, California, plans to develop the commercial property located at the intersection of Avenida Pico and Avenida La Pata in two phases. A portion of this property is outside the District. This project will be identified as Courtyards at Talega. Caliber plans to build seven buildings totaling 60,000 square feet that will accommodate a variety of uses including retail, medical and financial services. Construction on the property within the District is expected to commence in November 2002.

Recent Sales

In June 2002, Talega Associates entered into Purchase and Sale agreements with four homebuilding companies for the sale of 556 residential lots in Village 3. Table 13 below provides relative information for each transaction. The sale of Planning Areas 3A and 3B have post closing obligations to deliver the property in a mass graded condition. The sale of the remaining Planning Areas have post-closing obligations to deliver the lots in a blue top condition. As of August 1, 2002, no commercial/industrial sales were pending.

Table 13
Community Facilities District No. 90-2 (Talega)
Recent Sales to Residential Builders

Builder	Planning Area	Net Acres	# Of Units	Product Type	Date Of Sale	Est. Closing Date
Lennar Homes	3A	12.9	144	Attached	6/18/02	Oct, 2002
Standard Pacific	3B	13.2	91	Detached	6/26/02	Dec, 2002
Brookfield	3C	15.6	78	Detached	6/18/02	Dec, 2002
Standard Pacific	3D	16.5	94	Detached	6/26/02	Dec, 2002
Standard Pacific	3E	18.2	73	Detached	6/26/02	Dec, 2002
Lyon Homes	3F	23.5	76	Detached	6/18/06	Dec, 2002
Totals		99.9	556			

Plan for Financing Development

Talega Associates has obtained a \$15,000,000 term loan (the "Term Loan") and a \$35,000,000 revolving loan (the "Revolving Loan") from Housing Capital Company (the "Lender") both of which mature on January 31, 2003 and January 31, 2004, respectively. These loans are an extension and restructuring of an earlier loan which had previously been extended to July 15, 2002. Talega Associates plans to use these loans, proceeds of the Bonds, proceeds of the outstanding bonds of CFD No. 99-1 of the Water District, proceeds of additional bonds of CFD No. 99-1 which are projected to be issued in 2003, proceeds of the Improvement Area Bonds which are also expected to be issued in 2003, revenues from the sale of lots to merchant builders and revenues from profit participation in the sale of homes by the merchant builders to finance the costs of the development of the Talega Project.* The Term Loan and the Revolving Loan are secured by a deed of trust on the portions of the property comprising the project site which are owned by Talega Associates (the "Talega Property").

Pursuant to the loan agreement between Talega Associates and the Lender, the amount which may be outstanding at any time under the Revolving Loan cannot exceed the amount of the Available Commitment which is currently not more than \$34,500,000. As of July 31, 2002 the amount advanced to Talega Associates and outstanding under the Revolving Loan was \$34,073,947. Pursuant to the loan agreement, when this amount is repaid, the full amount of the Available Commitment will be available to be advanced.

Table 14 below contains Talega Associates' pro forma annualized cash flow summary for the development of the Talega Project. The pro forma cash flow summary contained in Table 14 is for all phases of the Talega Project. The amounts set forth in Table 14 are in current dollars with no appreciation or inflation assumed. Revenue and cost amounts are based on improving and selling lots for single family detached homes in "blue top" condition and parcels for single family attached and multifamily residential units in "super-pad" condition. The projected revenues from land sales are not based on the assumptions of the Appraiser or the Market Absorption Consultant. Talega Associates reviews and revises its business plan annually in October and November and the 2003 business plan update is in progress.

^{*} Pursuant to agreements with the residential builders, Talega Associates is entitled to a participation in each builder's net profit pursuant to a formula set forth in the agreements. For the period through August 1, 2002, Talega Associates received profit participation in the total amount of \$16,148,000.

Developer's Pro Forma Annualized Cash Flow Summary Community Facilities District No. 90-2 (Talega)

Calendar Year	Through 1/31/02	2002	2003	2004	2005	2006	2007	Totals
Revenue from Land Sales	\$212,093,954	\$103,457,777	\$45,786,369	\$49,808,552	\$107,179,275	0\$	0\$	\$518,325,927
Loan Draws (1)	32,475,740	46,654,867	51,401,625	67,800,162	0	0	0	\$198,332,394
Bond Proceeds (2)	8,811,784	19,988,344	34,229,707	2,381,403	8,790,454	3,348,900	340,380	\$77,890,972
TOTAL SOURCES	\$253,381,478	\$170,100,988	\$131,417,701	\$119,990,117	\$115,969,729	\$3,348,900	\$340,380	\$794,549,293
Bonds & Fees	\$8,749,782	\$3,121,184	\$3,711,868	\$2,345,900	\$1,157,851	\$71,677	80	\$19,158,262
Off-Site Improvements	83,533,485	\$31,310,420	\$74,536,213	\$22,164,541	\$16,130,045	5,934,785	863,652	\$234,473,141
Off-Tract Infrastructure	9,170,636	8,074,497	(5,880,000)	0	0	0	0	\$11,365,133
Common Area Costs	16,820,357	2,425,053	10,679,984	2,457,855	2,056,444	748,956	2,413,266	\$37,601,915
Engineering	23,770,241	8,889,153	8,967,523	5,939,586	2,263,043	753,623	431,432	\$51,014,601
Construction Indirects/ Project Development	7,615,515	1,360,897	980,004	1,046,617	856,556	345,021	345,021	\$12,549,631
Sales & Marketing	5,340,948	(653,207)	(1,177,971)	(1,184,443)	(1,181,207)	0	0	\$1,144,120
Property Taxes (3)	19,597,836	1,750,000	1,295,723	1,302,843	1,299,283	0	0	\$25,245,685
General & Administrative	8,257,458	2,160,686	1,910,064	1,920,559	1,915,311	0	0	\$16,164,078
Loan Repayments	0	94,973,399	43,386,369	49,808,552	31,788,916	0	0	\$219,957,236
TOTAL USES	\$182,856,258	\$153,412,082	\$138,409,777	\$85,802,010	\$56,286,242	\$7,854,062	\$4,053,371	\$628,673,802
DISTRIBUTABLE CASH	\$70,525,220	\$16,688,906	(\$6,992,076)	\$34,188,107	\$59,683,487	(\$4,505,162)	(\$3,712,991)	\$165,875,491

³ E

Projected annualized totals of loan draws and repayments pursuant to the current revolving loan.

Includes (i) Bond proceeds of CFD No 99-1, (ii) proceeds of the sale of parity bonds of CFD No. 99-1, (iii) remaining balance of the school site purchase price which is expected to be paid from proceeds of the sale of CFD 90-2 Improvement Area No. 2002-1 bonds.

Includes special taxes levied to pay debt service on the bonds and parity bonds of CFD No. 99-1, the bonds of CFD No. 90-2 Improvement Area No. 2002-1 and the Bonds.

⁽³⁾ Includes special taxes Source: Talega Associates, L.L.C.

The pro forma cash flow summary contained in Table 14 assumes that an additional series of parity bonds of CFD No. 99-1 will be issued in 2003 to fund project costs in the amount of \$20,000,000. This pro forma cash flow summary also assumes the sale of bonds of the District for the Improvement Area in 2003 to fund project costs in the amount of \$24,000,000.

Talega Associates advises that as of September 31, 2002 it had received a total of \$233,996,494 in revenues from land sales, and that it expects to receive not less than \$81,555,237 before the end of the year from the closing of the sale of Village III. This will enable Talega Associates to achieve its projected total revenues from land sales of \$315,551,731 through 2002. Talega Associates also advises that as of September 31, 2002, it had spent a total of \$225,963,247 in the development of the Talega Project. Total project expense (less loan repayments) through the end of 2002 are \$241,294,941. Talega Associates advises that the difference of \$15,331,694 is consistent with its spending projections for the remainder of 2002.

Growth Control Initiative

In 1986 the voters in the City approved a growth control initiative, Measure B, which limits the number of building permits that can be issued by the City for residential dwelling units to 500 per year. In the original development agreement between Talega Associates and the City, the City acknowledged that 338 previously authorized residential building permit allocations which Talega Associates acquired from the original developer of the Talega Project could be used without affecting the allocation of additional building permits pursuant to Measure B. Measure B controls the issuance of building permits for the all of the residential units, except the 338 mentioned above, which are expected to be constructed in the portion of the project which is located in the City (i.e., approximately 2,127 units). Other competing major development projects as well as individual property owners in the City will also be seeking the issuance of building permits for residential construction.

On June 7, 1999, the City Council authorized an additional 181 residential building permit allocations for portions of the Village Center and Tentative Tract 15765. On April 15, 2000, the City Council authorized the issuance of 116 residential building permit allocations for Tentative Tracts 14224 and 14226 in the Talega Project. On the same date, 72 additional residential building permit allocations were authorized by the City Council for the Village Center. The City Council authorized 123 residential building permit allocations for the Village Center on April 4, 2001. On July 3, 2002, the City Council authorized 483 residential building permit allocations for Village 3. Residential building permit allocations are made once each year and have historically been made before July 1. As of September 3, 2002, the City and the Authority had issued 1,566 residential building permits for the Talega Project exclusive of building permits that have been issued for the construction of 280 age-restricted units which are exempt from the levy of the Special Taxes.

Foothill Transportation Corridor Alignment

On November 19, 1986, the Board of Supervisors of the County approved the selection of four Alternative Alignments for the Cristianitos Segment of the Foothill Transportation Corridor ("FTC") identified as BX, C, D, and E. The FTC is a proposed major arterial highway which would link southern Orange County with business and commercial centers in the central and northern portions of the County. It would provide an alternative north/south route to the San Diego (I-5) Freeway and would serve some of the through-travel demand which is expected to be generated by the anticipated inland development in the southern half of the County. A modification of Alignment C, originally designated "CP" and now designated the "Far East Alignment," which runs along the easterly boundary of the Talega Project, has been incorporated into the overall design of the project. The County Master Plan for Arterial Highways shows a conceptual alignment for the FTC along the eastern edge of the project which approximates Alignment C. The same conceptual alignment is also included in the City's General Plan.

Since the Foothill-South Toll Road intersects with I-5, it requires federal permits and may be eligible for federal funding. Accordingly, a federal Environmental Impact Statement ("EIS") that will address the environmental consequences of constructing the FTC along the Far East Alignment and other possible alignments

and project alternatives is being prepared. In November 2000, a group of federal and state transportation and resource agencies announced that the alternatives that are to be considered in the EIS will be:

The Far East Alignment: The Far East Alignment would extend the existing 241 Toll Road south from where it now ends at Oso Parkway near Rancho Santa Margarita to I-5 at Cristianitos Road south of the City. It traverses portions of undeveloped, privately owned land east of the City of San Juan Capistrano and the City, including the Talega Project, and portions of the Camp Pendleton Marine Corps Base. The alignment crosses Ortega Highway approximately 2.5 miles east of Antonio Parkway/Avenida La Pata. Interchanges are planned at Oso Parkway, Crown Valley Parkway (future), Ortega Highway, Avenida Pico, Cristianitos Road, and at a direct connection to I-5. Variations include stopping the alignment at Avenida La Pata, Ortega Highway and Avenida Pico or swinging the alignment southwest to meet with the Central Alignment near Avenida Pico.

In 1991, after completing public review through the preparation of an Environmental Impact Report, the Foothill/Eastern Transportation Corridor Agency Board of Directors approved the CP (Far East) Alignment as the locally preferred alternative because it best relieved traffic on I-5 with the least environmental impacts. The Board of Directors is comprised of elected city and county officials. This locally preferred alignment is recognized by the City and the County and is an integral part of a multi-modal transportation solution that is included in the Orange County Transportation Authority and Southern California Association of Governments planning documents; the agencies that are responsible for regional transportation planning.

Central Corridor Alignment (previously BX): The Central Corridor Alignment would extend the 241 Toll Road south from where it now ends at Oso Parkway near Rancho Santa Margarita to 1-5 at Avenida Pico in the City. It crosses Ortega Highway approximately one-quater mile east of Antonio Parkway/Avenida La Pata and extends southerly parallel and east of Avenida La Pata and the city limit of the City of San Juan Capistrano. The alignment continues along the westerly edge of the Talega Project and swings southwesterly to continue parallel to and northwest of Avenida Pico to terminate at I-5. Variations include stopping the alignment at Avenida La Pata or Ortega Highway.

Alignment 7: Alignment 7 would extend the 241 Toll Road south from where it now ends at Oso Parkway near Rancho Santa Margarita to I-5 at Avenida Pico in the City. The alignment crosses Ortega Highway approximately 1.1 miles east of Antonio Parkway/Avenida La Pata. The alignment continues southerly through the Prima Deshecha Sanitary Landfill near its easterly property line. It then enters the City, continues through the Talega Project and swings southwesterly to continue parallel to and northwest of Avenida Pico to terminate with a direct connection to I-5. Variations include swinging the alignment to the Central Alignment before it reaches the northerly property line of the Prima Deshecha Sanitary Landfill or swinging the alignment to the Far East Alignment just south of the northerly landfill property line or stopping the alignment at Avenida La Pata or Ortega Highway.

Arterial Improvement: The Arterial Improvement alternative involves expansion of Antonio Parkway, Avenida La Pata, Ortega Highway and Camino Las Ramblas beyond the master plan build-out to handle future regional traffic demand.

Interstate 5 Widening: The 1-5 Widening Alternative would add additional lanes to I-5 between the 1-5/I-405 interchange and Cristianitos Road to accommodate future traffic projections. Adding these lanes would require major reconstruction of interchanges along the route.

Selection of either the Central Corridor Alignment (formally the BX alignment) or Alignment 7, both of which traverse portions of the Talega Project site, would require significant revision of the development plan.

Talega Associates advises that the selection of the Central Corridor Alignment would result in the displacement of approximately 200 residential units. Talega Associates advises that the selection of Alignment 7 would result in the displacement of approximately 425 residential units in Villages I, II, V and VI. Talega Associates believes that the Specific Plan would allow the transfer of these units to other areas of the Talega Project. If either the Central Corridor Alignment or Alignment 7 were selected, and portions of the project site were acquired for right-of-way through eminent domain proceedings, the obligation to pay the Special Taxes would be treated as if it were an assessment and paid from the eminent domain award. See "SPECIAL RISK FACTORS - Insufficiency of Special Taxes." Selection of either one of these alignments would also require the acquisition of newly completed and occupied homes.

The Foothill/Eastern Transportation Corridor Agency Board of Directors selected the Far East Alignment (CP) in 1991, after completing public review through the preparation of an Environmental Impact Report, as the locally preferred alternative. The Cities of San Clemente and San Juan Capistrano have also selected the Far East Alignment (CP) as the preferred alignment. It is expected that the final alignment selection will occur in 2003 and construction of the final reach of the FTC will begin in 2003 or 2004. Completion is projected for 2007.

Endangered Species

Impacts from the development of the Talega Project to biological resources, including sensitive species and habitat types (including coastal sage scrub) were avoided, minimized and mitigated by project design features and funding for a conservation easement encompassing the approximately 1,172 acre Talega Reserve which is managed by the Rancho Mission Viejo Land Conservancy. However, development activity on the project site will impact 136.14 acres of coastal sage scrub which is potential habitat for the coastal California gnatcatcher. United States Fish and Wildlife Service and California Department of Fish and Game authorization is required for this habitat loss. Talega Associates has obtained authorization pursuant to the County of Orange Natural Community Conservation Planning ("NCCP") program and the 4(d) Special Rule process under the Federal Endangered Species Act for the loss of 104.12 acres of coastal sage scrub through the issuance of three "4(d)" habitat loss permits. The areas covered by these permits include Village I, Village II, the Village Center and the Business Park south of Avenida Pico. Mitigation measures for the loss of this habitat include the preservation and restoration of sage scrub in onsite open space areas. Talega Associates has also contributed \$250,000 to the County and homeowners in the Talega Project will pay an annual homeowner's assessment of \$25.00 per residential unit which will be contributed to the County or an appropriate non-profit conservation agency for maintenance of an NCCP reserve system. If the maximum number of residential units (4,500) were built, the total of the annual homeowners' assessments would amount to \$112,500 or if 3,866 residential units are built, as now projected by Talega Associates, the total of the annual homeowners' assessments would amount to \$96,650. Talega Associates is preparing an application for a final "4(d)" habitat loss permit to obtain authorization for the loss of approximately 32 acres of coastal sage scrub in portions of Village V and Village VI. Talega Associates is also processing a"4(d)"habitat loss permit for approximately seven acres of coastal sage scrub in Village III and along Avenida Talega which is expected to be approved by the U.S. Fish and Wildlife Service in the fourth quarter of 2002. All of the required mitigation has been accomplished.

In connection with the issuance of the 404 Permit, the Corps has obtained a biological opinion from the United States Fish and Wildlife Service regarding the impact of the Talega Project on a small population of Thread-leaved Brodiaea, a federally protected plant, and to areas designated as critical habitat for the coastal California gnatcatcher. The Fish and Wildlife Service has determined that relocation of the Brodiaea plants is acceptable and that the project will not adversely modify critical habitat for the gnatcatcher.

Environmental Permitting and Mitigation Measures

As discussed above, the State of California and the United States government have jurisdiction over certain activities at the Talega Project requiring the issuance of permits. These permits include a Section 404 of the Clean Water Act permit issued by the Army Corps of Engineers, a Section 401 of the Clean Water Act Water Quality Certification issued by the California Regional Water Quality Control Board and a 1603 Streambed Alteration Permit issued by the California Department of Fish and Game. All of these permits were necessary to allow the filling of drainage areas required to develop the Talega Project. All of these required permits were secured in March 2002. The Army Corps of Engineers issued a Notice to Proceed with the authorized filling on May 30, 2002.

To obtain these permits, as well as the required concurrence from the United States Environmental Protection Agency and United States Fish and Wildlife Service, Talega Associates agreed to avoid filling most of the 11.08 acres of jurisdictional drainage areas by constructing three bridges, moving storm runoff storage and treatment facilities from the drainage areas and redesigning development areas. The required permits allow filling of 3.78 acres of jurisdictional drainage that could not be avoided. As compensation for this impact, Talega Associates is required to create 2.72 acres of willow/mule fat habitat and 3.72 acres of alkali wetlands. Filling of the authorized drainage areas and installation of the required mitigation has started and will continue in conjunction with project phasing.

The California Department of Fish And Game and the United States Fish and Wildlife Service also regulate the removal of habitat for the endangered coastal California gnatcatcher through the issuance of Section 4(d) Interim Habitat Loss Permits ("4(d) Permit"). These permits are intended to allow removal of coastal sage scrub plants that are potentially habitat for the gnatcatcher. These permits are issued for development activities that are expected to occur within a year of removal of the habitat. Talega Associates will secure these permits as required for development phasing. To date 4(d) Permit authorization has been secured for the removal of approximately 114 acres of coastal sage scrub habitat, including two areas that were occupied by gnatcatchers. A final 4(d) Permit for the remaining 32 acres of unoccupied coastal sage scrub is being prepared and is expected to be issued before the end of 2002. To obtain these authorizations, Talega Associates has been required to preserve existing coastal sage scrub where possible and to recreate coastal sage scrub habitat at a ratio of two acres for every acre impacted by development. These requirements have been incorporated into the project design and in many cases occur on graded slope areas requiring landscaping for aesthetic and erosion control purposes.

Market Absorption Study

Empire Economics, LLC (the "Market Absorption Consultant") has prepared a Market Absorption Study which estimates the absorption schedules for the 3,412 residential units (exclusive of the 283 age-restricted units in Area 2C of Village II) which are expected to be constructed in the Talega Project and for the property in the District which is proposed for development for commercial-retail and business park uses. As of July 1, 2002, 946 of the residential units had been sold to homeowners. The Market Absorption Consultant's projected absorption (i.e., construction and occupancy) schedules for the remaining 2,637 residential units which are expected to be constructed in the Talega Project is as follows: 130 homes in the final six months of 2002; 612 homes in 2003; 635 homes in 2004; 641 homes in 2005; 409 homes in 2006; 187 homes in 2007; and 23 homes in 2008.

The Market Absorption Consultant advises that with regard to the absorption of the 9.8 acres of retail/office property, the demand for this property will depend on the absorption of homes in the District, along with the purchasing power of these households. Based on a consideration of these factors, the Market Absorption Consultant estimates that the absorption of this commercial-retail property will amount to 1.7 acres in 2003, 3.3 acres in 2004 and 4.8 acres in 2005.

The Market Absorption Consultant advises that the absorption of the 58.8 acres of business-park properties is based upon the expansion of Orange County's employment centers into the far southern portion of

the County. The Market Absorption Consultant advises that 20 acres of the business park property was sold to end users in 2001, that 12.5 acres was sold in the period January – July, 2002 and that five acres is expected to be sold in the remaining six months of 2002. The Market Absorption Consultant estimates that approximately 10 acres of the property will be sold in each of the calendar years 2003 and 2004 and that the remaining 1.4 acres will be sold in 2005.

The Market Absorption Consultant's absorption estimates are based on the assumption that all City building permit allocations and environmental approvals will be received in a timely manner.

The Appraiser has relied on the Market Absorption Consultant's projections for purposes of the Appraisal. See "APPENDIX B - MARKET ABSORPTION STUDY" for a complete understanding of the Market Absorption Consultant's assumptions. No assurance can be given that homes and other properties in the District will be absorbed as projected by the Market Absorption Consultant.

SPECIAL RISK FACTORS

The following is a discussion of certain special 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 the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District 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 the District. See "The Appraisal" and "Limited Secondary Market" below.

Economic Uncertainty

The Bonds are being issued in a period of economic uncertainty. The national and State economies may be in recession. No assurance can be given that current economic uncertainty or future occurrences will not have an effect on the District, the development or property owners in the District. Among other possible effects, economic uncertainty could result in an increase in lending requirements which potential home buyers must satisfy to qualify for loans to purchase homes in the District. Also, uncertainty regarding job security and personal income may cause people to defer the purchase of homes and reduce the demand for new homes. Either of these possibilities could result in a slowdown in home sales and a decrease in land values in the District.

Existence of Undeveloped Property

As of March 1, 2002, approximately 1,170.64 acres of taxable land in the District were considered to be undeveloped. Special Taxes were levied on undeveloped property for fiscal year 2002-03 in the total amount of \$259,417. It is expected that Special Taxes will also be levied on undeveloped property pursuant to the Rate and Method of Apportionment of Special Taxes in fiscal years 2003-04 and 2004-05 to pay a portion of the annual debt service on the Bonds. See "THE DISTRICT - Rate and Method of Apportionment of Special Taxes." No assurance can be given that the Developers or other taxpayers within the District will continue to pay the Special Taxes levied on their property or that they will be able to pay such Special Taxes on a timely basis. See "Bankruptcy" and "Limitations on Remedies" below, for a discussion of certain limitations on the ability of the District to pursue judicial foreclosure proceedings with respect to parcels with delinquent Special Taxes.

Insufficiency of Special Taxes

Under the Rate and Method of Apportionment of Special Taxes for the District, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on its development status as determined under the Rate and Method of Apportionment of Special Taxes. See Appendix C and "THE DISTRICT - Rate and Method of Apportionment of Special Taxes." To the extent undeveloped property does not become developed property, the collection of Special Taxes will be dependent on the willingness and ability of the owners of undeveloped property to pay such Special Taxes when due. See "Failure to Develop" and "The Appraisal" below for a discussion of the risks associated with undeveloped property.

The Rate and Method of Apportionment of Special Taxes specifies the process for determining the amount of Special Tax to be levied in order to equal the amount needed to pay debt service on the Bonds. The Special Taxes will not be levied on not to exceed 1,230.74 acres of public properties, religious properties or homeowner association or property owner association properties.

The Act provides that if any property within the District not otherwise exempt from the Special Taxes is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operative effect of these provisions of the Act have not been tested in the courts. If for any reason property subject to the Special Taxes becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized Special Taxes, the Special Taxes will be reallocated to the remaining taxable properties within the District, depending on where such property is located. This would result in the owners of such properties paying a greater amount of the Special Taxes and could have an adverse effect on the timely payment of the Special Taxes. Moreover, if a substantial portion of land within the District became exempt from the Special Taxes because of public ownership, or otherwise, the maximum Special Taxes which could be levied upon the remaining land might not be sufficient to make the payments required to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

No assurance can be given that the Special Taxes levied on developed residential and commercial parcels within the District, determined in accordance with the Rate and Method of Apportionment of Special Taxes, together with the Special Taxes which will be levied on undeveloped property within the District will be sufficient to pay the annual debt service due on the Bonds. Further, if the owners of undeveloped property within the District are unable to develop any portion of such undeveloped property, the maximum amount of Special Taxes that can be collected will be adversely affected, and the ability and willingness of the owners of such property to pay the Special Taxes when due could also be affected. See Appendix C and "THE DISTRICT - Rate and Method of Apportionment of Special Taxes."

Prepayment of Special Taxes

The Rate and Method of Apportionment of Special Taxes contains procedures for calculating the partial or full prepayment and satisfaction of the Special Tax obligations of parcels of property in the District. Amounts received by the District from the partial or full prepayment and satisfaction of Special Tax obligations will be applied to the mandatory redemption of the Bonds. See "THE BONDS - Mandatory Redemption From Special Tax Prepayments." Full prepayments of the Special Tax obligations of parcels of property in the District could reduce the diversity of ownership among taxpayers in the District and could result in some of the more valuable property in the District being relieved of the obligation to pay the Special Tax.

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Development Agreement

On September 2, 1998, the City Council of the City adopted an ordinance approving a development agreement between the City and Talega Associates pursuant to Section 65865 of the Government Code of the State, with respect to the development of the land within the District. An Amended and Restated Development Agreement by and among the City, the Talega Joint Planning Authority and Talega Associates was approved by the City Council on December 12, 2001 and by the Board of Directors of the Authority on December 17, 2001. This agreement supercedes the original development agreement between Talega Associates and the City. A discussion of the principal features of the Amended and Restated Development Agreement is contained in the Appraisal. Generally, the Amended and Restated Development Agreement provides assurance to Talega Associates that it may develop the Talega Project in accordance with the land use regulations and development standards which are identified and set forth in the Amended and Restated Development Agreement. There are no reported California court decisions which have considered the enforceability of development agreements such as the Amended and Restated Development Agreement. Consequently, no assurance can be given that a court would uphold the Amended and Restated Development Agreement if it were challenged. Moreover, the Amended and Restated Development Agreement is not binding on other governmental agencies, and they could, therefore, impose additional conditions on the development of the Talega Project or deny necessary permits. See "Failure to Develop" below.

Furthermore, questions exist as to the enforceability of development agreements and as to the extent to which they can protect the right to proceed with development as currently planned if more restrictive local land use regulations are adopted in the future. A development agreement does not protect against changes in State or federal law. Further, under certain circumstances (i.e., a natural disaster), the City may be able to take action, in the exercise of its police power, which is contrary to the Amended and Restated Development Agreement, to protect the public health, safety and welfare.

Growth Control Initiative

As discussed under "THE DEVELOPMENT PROJECT - Growth Control Initiative," the ability of Talega Associates to obtain building permits for the construction of residential units in the portion of the Talega Project which is located in the City (approximately 2,127 units) is subject to the requirements of a growth control initiative which limit the issuance of residential building permits in the City to 500 per year. Talega Associates believes it will be able to obtain building permits as needed for it to realize its projections for the sale of residential property to merchant builders. However, other major development projects and other property owners will also be seeking building permits for residential construction, and no assurance can be given that such building permits will be available in sufficient numbers for such projections to be realized.

Issuance of Building Permits Contingent on Annexation

The issuance of building permits by the Talega Joint Planning Authority for development in the Sphere-of-Influence Area is conditioned on a petition for the annexation of property to the City being filed with and certified as being sufficient by LAFCO; and the issuance by the Authority of certificates of occupancy for completed homes and other structures in the Sphere-of-Influence Area is conditioned on the annexation of property to the City being completed. The ability of Talega Associates to sell parcels of property in the Sphere-of-Influence Area to merchant builders is dependent on the builders being willing to purchase property which is subject to such conditions on the issuance of building permits and certificates of occupancy. This could place Talega Associates at a competitive disadvantage with other projects and adversely affect its ability to sell property in the Sphere-of-Influence Area and the absorption of that property. See "THE DEVELOPMENT PROJECT - Annexation of Sphere-of-Influence Area" and "- Talega Joint Planning Authority."

Failure to Develop

Land development operations are subject to comprehensive federal, State of California and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. It is possible that such approvals will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy any such government requirement could adversely affect land development operations. In addition, there is a risk that future governmental restrictions, including, but not limited to, governmental policies restricting or controlling development within the District, will be enacted, and a risk that future land use initiatives approved by the voters in the County could add more restrictions and requirements on development within the District.

Moreover, there can be no assurance that the means and incentive to conduct land development operations within the District will not be adversely affected by a deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, the national economy, or war or terrorist activity. A slowdown of the development process and the market absorption rate for new homes could adversely affect land values and lessen the ability or willingness of the developers and owners of land within the District to pay the annual Special Taxes.

Another risk to the Bondowners involves the value of undeveloped property. Undeveloped property is less valuable per acre than developed property, especially if there are no plans to develop such property or if there are severe restrictions on the development of such property. Undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed would expose the Bondowners to additional risk. Because of the current acreage of undeveloped property within the District, the timely payment of the Special Taxes will depend, in part, upon the ability and willingness of the developers to pay such taxes levied on the undeveloped property when due. A slowdown in or cessation of the development of land within the District could reduce the ability and willingness of the developers to make Special Tax payments, and could greatly reduce the value of such property in the event it has to be foreclosed upon to collect delinquent special taxes.

The Appraisal

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that the aggregate minimum market value of the taxable property within the District was \$784,878,627 as of September 3, 2002. See "SECURITY FOR THE BONDS - Property Values" and Appendix A hereto.

The Appraisal assumes the accuracy of information provided by third parties, including information regarding development costs and public and private improvement requirements, and does not warrant the accuracy of such information.

Purchasers of the Bonds should not assume that the property within the District could be sold at its appraised value at a foreclosure sale to collect delinquent Special Taxes. See, "SECURITY FOR THE BONDS - Property Values" and the Summary Appraisal Report included as Appendix A for a description of the assumptions made by the Appraiser and the definitions, assumptions and limiting conditions of the Appraisal.

Purchasers of the Bonds should also understand that property values are not evenly distributed throughout the District. Consequently, the ratios discussed under "SECURITY FOR THE BONDS - Property Values" are not consistent among different parcels within the District. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt" and "- Summary of Appraised Values and Certain Public Debt." These inconsistent property values are significant because the only remedy available to the District for collection of

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delinquent Special Taxes is to initiate judicial foreclosure proceedings with respect to properties with delinquent Special Taxes.

The Appraisal and Value-to-Lien Ratios

The appraised value of the taxable property within the District, as determined by the Appraiser, is \$784,878,627 as of September 3, 2002. See the Summary Appraisal Report included as Appendix A hereto for a complete description of the assumptions made by the Appraiser. Among other assumptions, the Appraisal assumes the accuracy of information regarding development costs provided by Talega Associates, the residential builders who are constructing homes in the District and others, and such information has not been independently verified by the Appraiser. The ratio of the total of the appraised value of the property, as estimated by the Appraiser, to the total bonded indebtedness which will be secured by taxes are assessments levied on the property is \$784,878,627 to \$101,481,009 (i.e., the total of the Bonds, the Prior Bonds, the CFD No. 99-1 bonded indebtedness, and certain bonded indebtedness of the Metropolitan Water District of Southern California) or 7.734 to 1.

The District makes no representation as to whether the appraised value of the property within the District will remain at the appraised values discussed above or whether the property would sell for a price equal to that appraised value at foreclosure sale.

Parity Taxes and Special Assessments

The Special Taxes and any penalties and interest thereon will constitute a lien upon the lots and parcels of land within the District upon which the Special Taxes will annually be levied until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on property within the District. The School District has no control, however, over the ability of other agencies and districts to incur indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. Any such special taxes or assessments will have a lien on such property on a parity with the lien of the Special Taxes and any penalties and interest thereon.

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, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable on the same dates, and bear the same penalties and interest for non-payment, as general property tax installments. Special Tax installments cannot be paid separately from general property tax payments. Therefore, the unwillingness or inability of a property owner to pay general property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make general property tax payments and Special Tax installment payments in the future.

In fiscal year 2000-01 Special Taxes were levied on 424 parcels of Developed Property in the District. In fiscal year 2001-02 Special Taxes were levied on 865 parcels of Developed Property. In fiscal year 2002-03 Special Taxes were levied on 1,118 parcels of Developed Property and 1,170.64 acres of Undeveloped Property. No Special Taxes were levied on Undeveloped Property in the District in either fiscal year 2000-01 or fiscal year 2001-02. Delinquent Special Taxes for fiscal year 2001-02 were 2.34% of the total levy. It is expected that Special Taxes will be levied on Undeveloped Property in the District in fiscal years 2003-04 and 2004-05 to pay a portion of the annual debt service on the Bonds.

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See "SECURITY FOR THE BONDS - Special Tax Fund - Reserve Account" and " - Covenant for Superior Court Foreclosure", for discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

Non-Cash Payments of Special Taxes

Pursuant to the Act, the Board of Trustees, as the legislative body of the District, may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Tax or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. This would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds.

The Board of Trustees has covenanted that it will not accept the tender of Bonds in lieu of cash for the payment of Special Taxes levied by the District.

Land Development Costs

Development of land within the District is contingent upon construction or acquisition of major public improvements which will provide services to the boundaries of individual subdivisions, as well as local in-tract improvements within each subdivision. The current property owners and developers, or subsequent property owners and developers, will need to secure financing to provide for the total cost of constructing all public improvements that will not be constructed with the proceeds of the sale of the Bonds. The construction of some of these improvements will require action on the part of other agencies over which the School District has no control. There can be no assurance that these improvements will ever be constructed or will be constructed in a timely manner to permit the completion of the development currently proposed for the District.

In addition to the major public improvements which will provide services to individual subdivisions, significant local in-tract improvements will also be required in order to prepare finished lots which are ready for the construction of homes. These local in-tract improvements include mass grading, lot grading, streets, water and sewer lines, storm drains, utilities and landscaping. The financing of these local in-tract improvements must be obtained by the developer of each subdivision and the builders of the homes and commercial projects within the subdivisions. The financing of these in-tract improvements would increase the public and private debt for which the land within the District is security. This increased debt could impair the ability and willingness of the property owners to pay the annual Special Taxes levied on their property. See "SECURITY FOR THE BONDS - Property Values."

Future Indebtedness

The owners of land within the District may eventually wish to construct improvements in addition to those being financed with the proceeds of the Bonds. The cost of those additional improvements may increase the public and private debt for which the land in the District is security over that contemplated at the time of the issuance of the Bonds, and such increased debt could impair the ability and willingness of the developers and builders and other property owners to pay the Special Taxes levied on the property in the District. In addition, in the event any additional improvements or fees are financed pursuant to the establishment of an assessment district or another district formed pursuant to the Act, any taxes or assessments levied to finance such improvements will be secured by a lien on a parity with the lien of the Special Taxes. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt" and "- Other Financing Districts."

Disclosures to Future Purchasers of Land Within the District

The School District has recorded a notice of the lien of the Special Taxes for the District in the Office of the County Recorder of the County. While title insurance companies normally refer to such notices in title insurance reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser of land within the District or a lender will consider such Special Tax obligation in the purchase of such land or the lending of money with respect thereto. Failure to disclose the existence of the Special Taxes may affect the ability and willingness of future owners of land within the District to pay the Special Taxes when due.

Payment of Special Taxes

The levy of special taxes can result in a significantly greater property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special taxes. In some community facilities districts, the property owners have refused to pay the special taxes and have commenced litigation challenging the special taxes, the establishment of the community facilities district and the bonds issued by the district.

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, will be billed to the properties within the District on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. See "Tax Delinquencies" above.

An owner of a taxable parcel is not personally obligated to pay the Special Taxes which are levied against his or her parcel. Rather, the Special Taxes are an obligation which is secured only by a lien upon the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to fully secure the Special Taxes, the District has no recourse against the owner.

See "SECURITY FOR THE BONDS - Special Tax Fund - Reserve Account" and "- Covenant for Superior Court Foreclosure," for a discussion of provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

The ability of the District to increase the amount of Special Taxes which may be levied to and pay costs of foreclosure proceedings may be limited by voter initiative. See "Constitutional Amendment" and "Limitations on Remedies" below.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan, as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect Owners of the Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or any part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the District would eliminate such protection from delinquent Special Taxes. See "SECURITY FOR THE BONDS - The Teeter Plan."

Bankruptcy

The payment of property owners' taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to the Foreclosure Covenant, 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 "Limitations on Remedies" below and "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure."

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 bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full. The prosecution of foreclosure proceedings could also be delayed for other reasons, including crowded court calendars and procedural delaying tactics. See "Limitations on Remedies" below.

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, Inc.* (971 F.2d 391). 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 Chapter 11 relief under the Bankruptcy Code 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 filing of 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. When 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.

Payments by FDIC

The ability of the District to collect interest and penalties allowed by State law and to foreclose on property with delinquent Special Taxes may be limited if the Federal Deposit Insurance Corporation (the "FDIC") has or obtains an interest in the property. The FDIC would obtain such an interest by acting as receiver for or taking over a financial institution which has made a loan which is secured by real property within the District.

The FDIC has issued a policy statement (the "Policy Statement") which provides that real property owned by the FDIC is subject to state and local property taxes only if those taxes are assessed according to the

property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the affairs of the institution for which the FDIC is acting, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay or recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay the taxes. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without its consent.

The Policy Statement provides that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and any special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The United States Court of Appeals for the Ninth Circuit has recently issued an opinion regarding claims filed by the FDIC in the County's Chapter 9 bankruptcy seeking refunds of real property tax penalties for properties which were the subject of FDIC receiverships (In re: County of Orange, Debtor. Federal Deposit Insurance Corporation, Appellant-Cross-Appellee v. County of Orange, Appellee-Cross-Appellant, 262 F.3d 1014). The court affirmed a decision of the Bankruptcy Appellate Panel that the FDIC could not avoid prereceivership liens for these penalties but that the FDIC is not liable for penalties that are not secured by liens both before and after the receivership or for post-receivership special taxes levied pursuant to the Mello-Roos Act. The Policy Statement is consistent with this opinion.

The District is unable to predict what effect the FDIC's application of the Policy Statement would have if there were a delinquency in Special Taxes levied on a parcel in the District in which the FDIC had an interest. However, it should be assumed that there would not be a buyer at a foreclosure sale if the FDIC's lien could not be foreclosed. It should also be assumed that the District will be unable to foreclose on any parcel owned by the FDIC. In either event, there would be a draw on the Reserve Account and, if the delinquency continued, there could be a default in payment of principal of and interest on the Bonds.

The FDIC does not have any interest in any of the property in the District, and it does no appear that any property in the District has been in FDIC receivership.

Endangered Species

During the past several years, there has been an increase in activity at the State and federal levels related to the listing and possible listing of certain plant and animal species found in California as endangered species. An increase in the number of endangered species is expected to curtail development in a number of areas. Additionally, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal government to protect species located on or adjacent to the property within the District could have an adverse effect on the ability of the owners of undeveloped property to develop such property. Any such action could reduce the likelihood of timely payment of the Special Taxes which might be levied upon such undeveloped property and would likely reduce the value of such property and the potential revenues available at foreclosure sales for delinquent Special Tax installments. See "SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure" and "THE DEVELOPMENT PROJECT - Endangered Species."

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Geologic, Topographic and Climatic Conditions

The market value of the land and improvements within the District can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements on the land and the continued habitability and enjoyment of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements) and natural disaster conditions (such as floods, droughts and fire hazard).

Some of these factors have been taken into account, to a limited extent, in the design of infrastructure and public improvements, the design of which must be approved by the City and the County. Further, City and County building codes require that some of these factors be taken into account in the design of private improvements on property. The City and the County have adopted the seismic standards which are mandated by the Uniform Building Code. Design criteria with respect to any of these factors are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent criteria which may be subsequently established. In general, design criteria reflect a balance at the time of establishment between the present costs of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Consequently, neither the absence of nor the establishment of design criteria with respect to any particular condition means that the City or the County has evaluated the condition and has established design criteria in the situations in which such criteria are needed to preserve value, or has established such criteria at levels that will preserve value. To the contrary, it is expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations may preclude such repair or replacement. Consequently, the occurrence of any of these conditions could result in a significant decrease in the market value of affected property or in such property becoming unmarketable.

The project site is transected by the Cristianitos Fault which is considered to be inactive. According to the Environmental Impact Report prepared by the City, it is known, however, that the site will be subjected to seismic shaking of moderate to high intensities at least once during the expected lifetime of the planned improvements (i.e., 50-100 years). The nature of that shaking will depend upon the location of the focus of the earthquake responsible, the magnitude of the event, and the materials through which the seismic waves will pass prior to reaching the site. An offshore extension of the Newport-Inglewood Fault, which is considered active, lies not more than ten miles to the west of the site.

Hazardous Substances

One of the most serious risks which may affect the value of property is the discovery of a hazardous substance. In general, the owners of and operators on a parcel of property may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super Fund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in effect. Under these laws, the owner (or operator) is obligated to remedy a hazardous substance condition on property whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance that caused the condition. The effect, should any of the parcels within the District be affected by a hazardous substance, would be to reduce the marketability and value of such parcels by an amount at least equal to the costs of remedying the condition, because the prospective purchaser of such a parcel would, upon becoming the owner of such parcel, become obligated to remedy the condition just as the seller of the parcel is so obligated.

The appraised values of the properties within the District do not take into account the possible liability of the owner (or operator) for the remedy of any hazardous substance affecting any such property. Neither the District nor the School District has independently verified whether, nor is aware that, the owners (or operators)

of any of the parcels within the District have such a current liability with respect to any hazardous substance. However, it is possible that such liabilities do currently exist and that the District and the School District are unaware of such liabilities. No steps whatsoever have been taken in connection with the issuance of the Bonds to determine whether such liabilities exist.

Further, it is possible that such hazardous substance liabilities may arise in the future with respect to any of the parcels within the District resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could significantly affect the value of parcels.

Constitutional Amendment

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative"), Proposition 218, was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C ("Article XIII C") and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Among other things, Section 3 of Article XIII C 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." Notwithstanding the foregoing language of Article XIII C, the District believes that the initiative power referred to in Article XIII C confers on the voters no greater power with respect to the reduction or repeal of the Special Taxes than the power reserved to the respective legislative body of the District described below.

Taxes which is required for the payment of the principal of and interest on the Bonds, including any necessary replenishment or expenditure of bond reserve funds and any amount required by federal law to be rebated to the United States with respect to the Bonds (the "Minimum Levy"). In addition, the Act prohibits the legislative body from adopting any resolution to reduce the rates of the Special Taxes or terminate the levy of the Special Taxes pledged to repay the Bonds unless the legislative body determines that the reduction or termination of the Special Taxes would not interfere with the timely retirement of that debt. Accordingly, the District believes that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes below the level required for the Minimum Levy. Notwithstanding such belief of the District, 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 "Limitations on Remedies" below.

Additionally, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the level required for the Minimum Levy. Nevertheless, the District has covenanted that, to the maximum extent that the law permits it to do so, it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) it receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property, as defined in the Rate and Method of Apportionment of Special Taxes (i.e., Taxable Property for which a building permit for new construction was issued prior to March 1 of the prior fiscal year) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of Annual Debt Service, after payment of the Administrative Expense Cap (as defined in the Indenture), in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds.

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In connection with the foregoing covenants, the District has determined that a reduction in the maximum Special Tax rates below the levels provided for in the preceding paragraph would interfere with the timely retirement of the Bonds. The District has covenanted that in the event an initiative is adopted by the qualified electors of the District which purports to reduce the maximum Special Tax below these levels or to limit the power of the District to levy the Special Tax for those purposes, it will commence and pursue legal action in order to preserve its ability to comply with its covenants to levy Special Taxes. However, no assurance can be given as to the enforceability of these covenants.

The interpretation and application of Article XIII C will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such court proceedings or the timeliness of any remedy which may be afforded by the courts.

Future Initiatives

The Initiative was submitted to and approved by the voters of the State pursuant to the State's constitutional initiative process. The Supreme Court of the State has held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption of taxes from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by the voters of the State. The adoption of any such initiative might place limitations on the ability of the State, the School District, the District and other local districts to increase revenues or to increase appropriations or on the ability of the landowners within the District to complete the remaining proposed development. See "Failure to Develop" above.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAX MATTERS" interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture. See "Limitations on Remedies" below.

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 the Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required financial information does not give rise to monetary damages but only an action for specific performance. Occasionally, because of general market conditions, lack of current information, or the absence of a credit rating for bonds, or because of adverse history or economic prospects associated with a particular bond issue, secondary marketing practices in connection with such issue are suspended or terminated. Additionally, prices of bond 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.

Limitations on Remedies

Remedies available to Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 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 creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation, or modification of Bondowner rights.

CONTINUING DISCLOSURE

On October 31, 2001, at the time of the issuance of the Prior Bonds, the District and the Fiscal Agent, as Dissemination Agent, entered into a Continuing Disclosure Agreement whereby the District covenanted for the benefit of the Owners of the Prior Bonds to provide certain financial information relating to the District by not later than six months after the end of its fiscal year (which currently ends on June 30) (the "Annual Reports"), and to provide notices of the occurrence of certain listed events, if deemed by the District to be material. The Annual Reports will be filed by the Fiscal Agent, as Dissemination Agent, on behalf of the District with each Nationally Recognized Municipal Securities Information Repository and with any State Repository which may be designated by the State of California (the "Respositories"). The notices of material events will be filed by the Fiscal Agent, as Dissemination Agent, on behalf of the District with the Municipal Securities Rulemaking Board (the "MSRB") and any such State Repository which may be designated. The District and the Fiscal Agent, as Dissemination Agent, will enter into an Amendment to Continuing Disclosure Agreement, dated as of the date of issuance of the Bonds, which requires the inclusion of additional information regarding the Bonds in the Annual Reports that will be filed by the Fiscal Agent, as Dissemination Agent, with the Repositories pursuant to the Continuing Disclosure Agreement. A copy of the Amendment to Continuing Disclosure Agreement is included in Appendix F immediately after the Continuing Disclosure Agreement.

On October 31, 2001, at the time of the issuance of the Prior Bonds, Talega Associates and the Fiscal Agent, as Dissemination Agent, also entered into a continuing disclosure agreement whereby Talega Associates covenanted for the benefit of the Owners of the Prior Bonds to provide certain financial information and operating data relating to the development of its property within the District in Annual Reports filed by the Fiscal Agent, as Dissemination Agent, with the Repositories by May 1 of each year and in Semiannual Reports filed by the Fiscal Agent, as Dissemination Agent, with the Repositories by November 1 of each year and to provide notices of the occurrence of certain specified events, if determined by Talega Associates to be material, to the MSRB and any such State Repository. Talega Associates and the Fiscal Agent, as Dissemination Agent, will enter into an amendment to Talega Associates' continuing disclosure agreement, dated as of the date of issuance of the Bonds, which amends that agreement to make it applicable to the Bonds. A copy of the amendment to Talega Associates' continuing disclosure agreement is included in Appendix G immediately after that agreement.

The specific nature of the information to be contained in the Annual Reports and Semiannual Reports or the notices of material events is set forth in Appendix F - Continuing Disclosure Agreement and Appendix G - Developer Disclosure Agreement. These covenants of the District and Talega Associates have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Pursuant to the Continuing Disclosure Agreement, under circumstances and upon satisfaction of requirements specified therein, the District may amend the Continuing Disclosure Agreement or the Continuing Disclosure Agreement may be amended with the approval of the Bondowners in the manner provided therein. Talega Associates may also amend its continuing disclosure agreement under similar circumstances and upon

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satisfaction of similar requirements. The District's obligations under the Continuing Disclosure Agreement will terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. In general, the obligations of Talega Associates pursuant to its continuing disclosure agreement will terminate on the date when Talega Associates and its affiliates do not own property in the District that is subject to 20% or more of the Special Tax levy for the then current fiscal year. The provisions of the Continuing Disclosure Agreement and the continuing disclosure agreement of Talega Associates are intended to be for the benefit of the Bondowners and shall be enforceable by the Bondowners, provided that any enforcement action by any Bondowner shall be limited to a right to obtain specific enforcement of the District's obligations under the Continuing Disclosure Agreement or the obligations of Talega Associates under its continuing disclosure agreement, and any failure by the District or Talega Associates to comply with such obligations shall not be an event of default under the Indenture. See "APPENDIX F - CONTINUING DISCLOSURE AGREEMENT" and "APPENDIX G - DEVELOPER DISCLOSURE AGREEMENT."

LEGAL OPINION

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds, in substantially the form set forth as Appendix E hereto, will be made available to purchasers at the time of original delivery of the Bonds. Bond Counsel has not undertaken on behalf of the Owners or the Beneficial Owners of the Bonds to review this Official Statement and assumes no responsibility to such Owners and Beneficial Owners for the accuracy of the information contained herein. Certain legal matters will be passed upon for the Underwriter by Best Best & Krieger LLP, Riverside, California.

The statements of law and legal conclusions set forth in this Official Statement under the headings "THE BONDS" and "SECURITY FOR THE BONDS" have been reviewed by Bond Counsel. Bond Counsel's engagement is limited to a review of the legal procedures required for the authorization of the Bonds and to rendering an opinion as to the validity of the Bonds and the exemption of interest on the Bonds from federal and State income taxation.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest and original issue discount on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest and original issue discount on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest and original issue discount on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations.

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

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income.

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The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond.

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

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

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

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the initial delivery of the Bonds. The District and the School District are not aware of any litigation pending or threatened which questions the existence of the District or contests the authority of the School District to levy and collect and Special Taxes in the District or which contests the authority to issue the Bonds.

RATINGS

The Bonds are not rated.

UNDERWRITING

The Bonds are being purchased through negotiation by UBS PaineWebber Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$17,279,261.20 (after original issue discount in the amount of \$114,478.80 and an Underwriter's discount in the amount of \$211,260.00). The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased, the obligation to make such purchase being 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 public offering prices set forth on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

FINANCIAL INTERESTS

In connection with issuance of the Bonds, fees payable to certain professionals, including the Underwriter, Best Best & Krieger LLP, as counsel to the Underwriter, Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, and U.S. Bank, N.A., as Fiscal Agent, are contingent upon the issuance of the Bonds.

PENDING LEGISLATION

The District is not aware of any significant pending legislation which would have a material adverse effect on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

MISCELLANEOUS

All of the preceding summaries of the Indenture, the Bonds, other applicable agreements and legislation, and other documents are made subject to the provisions of such legislation and documents 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. This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the District has been duly authorized by the Board of Trustees.

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

/s/ Shelia J. Henness
President of the Board of Trustees

APPENDIX A

APPRAISAL REPORT

APPRAISAL OF

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

PREPARED BY

BRUCE W. HULL & ASSOCIATES, INC.

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SUMMARY APPRAISAL REPORT - COMPLETE APPRAISAL

COMMUNITY FACILITIES DISTRICT NO. 96-2 (TALEGA PROJECT)

Capistrano Unified School District City of San Clemente and County of Orange State of California (Appraiser's File No. 2002-28)

Prepared For

Capistrano Unified School District 32972 Calle Perfecto
San Juan Capistrano, California 92675

Prepared By

Brucc W. Hull & Associates, Inc. 1056 E. Meta Street, Suite 202 Ventura, California 93001

BRUCE W. HULL & ASSOCIATES, INC.

REAL ESTATE APPRAISERS & CONSULTANTS

September 16, 2002

Mr. David A. Doomcy
Assistant Superintendent, Facilities Planning
Capistrano Unified School District
32972 Calle Perfecto
San Juan Capistrano, California 92675

Reference: Community Facilities District No. 90-2 (Talega Project)

Capistrano Unified School District City of San Clemente and County of Orange State of California

Dear Mr. Doomey:

At the request and authorization of the Capistrano Unified School District, I have performed an appraisal of the above referenced lands.

The Talega Project is located in the southwestern portion of the County of Orange and is within the junisdictions of the County of Orange and the City of San Clemente. The entire project consists of 3,510 acres.

This report is being prepared for the Capistrano Unified School District Community Facilities District No. 90-2 ("CUSD 90-2") financing.

I have prepared the appraisal report in four sections. Section I values the "Merchant Builder Owned Parcels". Thirty-one (31) planning areas have been sold to ten merchant builders. These sales began in 1998 with the most recent sales currently under contract scheduled to close in the latter part of 2002. These planning areas are in different stages of construction ranging from completed homes to areas being mass graded. In addition, lots in the Business Park that have been improved, two apartment sites, and an affordable housing sitc are valued. Section II refers to all of the remaining and the remaining Business Park lands. Section III involves the "gap properties", i.e. properties that have recently sold to a homeower (for other end user, i.e. Business Park), but the value is not yet reflected on the 2002/2003 Orange County Assessor's Roll. Section IV represents the assessed value for existing homeowners and industrial buildings that have been constructed/improved per the 2002/2003 Orange County Assessor's Roll.

The purpose of this letter is to summarize the logical process used to arrive at my opinion of market value.

1056 E. Meta Street, Sulte 202, Ventura, California 93001 - (803) 841-3275 - Facsimile (805) 641-3278 - 1000 Street, Sulte 100, Tustin, California 92780 - (949) 561-2194 - Facsimile (849) 581-2198

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Mr. David A. Doomey Capistrano Unified School District September 16, 2002 Page Two The first step in the appraisal process was to collect demographic information relating to the region and immediate area of the subject. This included the review of a marketing absorption report prepared by Empire Economics dated August 2002 as well as demographic information collected from the County of Orange and other sources.

I next inspected the subject property. There are a limited number of active residential developments within Village 2 (primarily due to successful sales and projects being sold out). The master developer lands are essentially undeveloped.

In the course of my due diligence, I met with the master developer on several occasions, reviewed cost estimates prepared by civil engineers, and collected market data as it relates to residential and business park lands. In the case of the cost estimates, the infrastructure ("backbone") costs had been prepared by RBE Engineering. A separate engineering cost estimate on the "builder costs" (i.e. to complete the lots to a "finished" lot condition) was prepared by Paul Moote, P.E. A copy of the detailed cost estimates that have been prepared on the planning areas has been retained in my working files. A summary is located in the Addenda of this appraisal report.

The following values are reported as of September 3, 2002.

SECTION I

			Type of Value	
Planning Area	Developer / Owner	Near Term	Developed	Undeveloped
2M & P	BHC Residential LLC		\$ 11,710,000	
2-N	Jamboree Housing	\$ 1,056,032	\$ 3,988,968	
2-O & BP-9	BRE Properties	\$ 4,950,000	\$ 13,570,000	
2-0	Standard Pacific		\$ 22,060,000	
2-R	William Lyon		\$ 22,370,000	
2-S	BHC Residential LLC		\$ 12,060,000	
2-V	Standard Pacific		\$ 1,530,000	
3-G	Tava (Citation Homes)	\$ 5,702,397	\$ 488,777	
BP-1 (portion)	Kindercare		\$ 2,292,500	
BP-2A (portion)	Ewing Irrigation	\$ 466,000		
BP-4A	Recodo	\$ 1,725,000		
BP-7	Calibar	\$ 1,500,000		
Town Center	Standard Pacific			\$8,330,000
Total		\$15,399,429	\$ 90,070,245	\$8,330,000

The Aggregate Value for Section I is \$113,799,674.

Mr. David A. Doomey Capistrano Unified School District September 16, 2002 Page Three

SECTION II

This section involves the master developed owned properties (Talega Associates). The value for this Section is estimated at \$139,930,000.

SECTION III

This section addresses the individually owned properties that were recently purchased ("gap properties"). The following represents sales that have recorded in 2002, but have not yet been reflected on the Orange County Assessor's Roll for 2002/2003. The total value for all properties addressed in Section III is stated as \$160,163,380.

SECTION IV

This section involved the reporting of the Assessed Value for homoowners and buildings that have been completed and reported on the Orange County Assessor's Roll for 2002/2003. The total Assessed Value for this Section is reported as \$370,980,573.

The Aggregate Value derived from Sections I, II, III, and IV is:

\$113,799,674	\$139,930,000	\$160,168,380	\$370,980,573
•	•	1	ı
Section I	Section II	Section III	Section IV

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The above values are stated subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification as of September 3, 2002.

This report is defined as Summary Appraisal Report-Complete Appraisal, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP) effective January 1, 2001 for a Summary Appraisal Report. It is also been written to California Debt Advisory Standards dated May 1994. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the data, reasoning, and analyses that were used in the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client. The appraiser is not responsible for unauthorized uses of this report.

Mr. David A. Doomey Capistrano Unified School District September 16, 2002 Page Four The following narrative summary appraisal report sets forth the data and analyses upon which the opinion of value is, in part, predicated.

Respectfully submitted,

BRUCE W. HULL & ASSOCIATES, INC.

Bruce W. Hull, MAI

California State Certified General

Real Estate Appraiser (AG004964)

BWH:dh Attachment

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ASSUMPTIONS AND LIMITING CONDITIONS

..:

- This is a Summary Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used the appraisal process to reasoning, and analyses is retained in the appraiser' file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The develop the appraiser' opinion of value. Supporting documentation concerning the data, appraiser is not responsible for unauthorized use of this report.
- No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report. 7
- The property is appraised subject to the Santa Margarita Water District Community Facilities District No. 99-1 ("SMWD 99-1") and the Capistrano Unified School District Community Facilities District No. 90-2 ("CUSD 90-2") unless otherwise stated in this report.

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- Responsible ownership and competent property management are assumed unless otherwise stated in this report. 4.
- The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy. Ś
- All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property. ó,
- It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them. 7
- It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report. ∞i
- It is assumed that all applicable zoning and land use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report. ٥.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

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administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value It is assumed that all required licenses, certificates of occupancy or other legislative or estimates contained in this report are based. ⊴ं

- reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is express or implied unless Any sketch in this report may show approximate dimensions and is included to assist the otherwise stated in this report. No survey has been made for the purpose of this report. ÷
- It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is not encroachment or trespass unless otherwise stated in this report. 12
- discover them. The appraiser's descriptions and resulting comments are the result of the comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or relating to asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials, which may affect the value of the property. The appraiser's value estimate is cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to Such determination would require investigation by a qualified expert predicated on the assumption that there is not such material on or in the property that would The appraiser is not qualified to detect hazardous waste and/or toxic materials. routine observations made during the appraisal process. toxic materials. 3
- Any proposed improvement is assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications. 4.
- The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used. 15.
- The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the possible that a compliance survey of the property, together with a detailed analysis of the ADA. The appraiser is not a qualified expert as to the requirements of the ADA Act. It is requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the possible noncompliance with the requirements of ADA in estimating the value of the value of the property. Since the appraiser has no direct evidence relating to this issue, That the Americans with Disabilities Act ("ADA") became effective on January 26, 1992. property has not been considered. 16.

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- Certain assumptions as to bond size and fund balances were obtained from and relied upon the Development Planning and Financing Group, UBS/PaineWebber, and David Taussig & Associates, Inc. 17.
- If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment. 8.

PURPOSE OF THE APPRAISAL

laxes of CUSD 90-2 and SMWD 99-1, a portion of which is located in City of San Clemente and a The purpose of this appraisal is to estimate the value of the fee simple interest, subject to special portion of which is located within the unincorporated boundaries of Orange County.

INTENDED USE OF THE REPORT

It is my understanding that this report will be utilized by the client, Capistrano Unified School District, in determining the feasibility of issuing bonds of the CFD on the subject property and may be included in an Official Statement for the proposed bond issue.

DEFINITIONS

Market Value

The term "market value" as used in this report is defined as being:

"The most probable price which a specified interest in real property is likely to bring under all the following conditions:

- Consummation of a sale occurs as of a specified date. An open and competitive market exists for the property interest appraised. The buyer and seller are each acting prudently and knowledgeably.
 - - The price is not affected by undue stimulus.
- The buyer and seller are typically motivated.
- Both parties are acting in what they consider their best interest. ý,
- Marketing efforts were adequate and a reasonable time was allowed for exposure in
- Payment was made in cash in U.S. dollars or in terms of financial arrangements comparable thereto. œ
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions gramed by anyone associated with the sale. "I

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Summary Appraisal Raport – Complete Appraisal Community Facilities District No. 90-2 (Taking Project Childes Project Strucc W. Hull & Associates, Inc.

The Appraisal of Real Estate, Eleventh Edition (definition adopted by the Appraisal Institute in 1993).

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Finished Lot

Finished Lot is defined as:

This condition assumes the payment of all applicable development fees with the "a parcel which has legal entitlements creuted by a recorded subdivision map. The physical condition being a finc graded level pad with infrastructure contiguous to each individual lot and consisting of asphalt paved roads in addition to the necessary utilities. exception of building permit and plan check fees. "

Gap Property

A Gap Property is defined as:

"those properties for which the Assessed Value does not reflect recent transactions and current market value."

Blue Top Lot

A Blue Top Lot is defined as:

"a parcel which has legal entitlements created by a recorded subdivision map. The physical condition being mass graded with streets cut out and individual lots terraced Utilities are supplied to property line only."

Mass Graded or Superpad Parcel

A Mass Graded or Superpad Parcel is defined as:

"a parcel which has legal entitlements created by a recorded subdivision map. The physical condition being a mass graded pad only. There are no streets cut or terracing completed. Utilities are supplied to the property line only."

Near Term Property

Near Term Property is defined as:

and (B) grading on a materials moved basis is 90% complete; (iv) with respect to which a paved public access road with utilities, other than water sewer, are completed to within 100 yards of each parcel and, with respect to water and sewer utilities, a final 'A' map will serve letter has been executed by Santa Margarita Water District covering all of the "real property within the District (i) with respect to which an "A" map creating conveyable parcels has been recorded with the County Recorder; (ii) for which grubbing and clearing are complete; (ii) for which both (A) rough cut and fill are 90% complete,

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(Talega Project)
Capistrano Unified School District
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Near Term Property; and (v) with respect to which no building permit for residential units or a non-residential building has been issued."?

PROPERTY RIGHTS APPRAISED

The property rights being appraised are the fee simple interests subject to the special tax created by CFD No. 90-2 (Capistrano Unified School District) and CFD No. 99-1 (Rancho Santa Margarita Water District).

EFFECTIVE DATE OF VALUE

The subject property is valued as of September 3, 2002.

DATE OF REPORT

The date of this report is September 16, 2002.

OWNER OF RECORD

Talega Associates, LLC, various residential merchant builders, as stated in Section I and II of this report, and individual property owners, which are listed in Sections III and IV of this report.

LEGAL DESCRIPTION

A lengthy description is included in the Addenda of this report.

Pand Indenture Between Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) and U.S. Bank Trust National Corporation dated as of May 1, 2001.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

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APPRAISAL DEVELOPMENT AND REPORTING PROCESS

As stated above, the purpose of this appraisal is to report the appraiser's best estimate of the market value subject to the CFD special tax. This report will be presented in the format described below.

- A regional and city description followed by a description of the immediate area surrounding the property.
- A brief description of the subject Community Facilities District.
- A summary of the Talega Specific Plan.
- A description of the subject property.
- A Highest and Best Use Analysis for the subject property.
- Section 1 Valuation will address the Planning Areas that have recently sold to Residential Merchant Builders and Developers as well as parcels that have improvements constructed, but the value has not yet been reflected on the 2002/2003 Orange County Assessor's Roll.
- Section II Valuation of the Master Developer Owned properties.
- Section III Valuation of Individually Owned Properties that have been purchased from merchant builders but the market value has not yet been reflected on the Assessor's roll.
- Section IV. A reporting of the Assessed Value for existing homowners and buildings
 which have been improved and reported on the 2002/2003 Orange County Assessor's
 Roll
- Summary of the Report.

In the Section I valuation a number of planning areas will be valued based on the highest and best use conclusion. The valuation methodology considered in Section I would be the Sales Comparison Approach or the Cost Approach. The Discounted Cash Flow ("DCF") Analysis will be considered for any remaining finished homes owned by the Merchant Builder (i.e. standing inventory).

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In the Section II valuation the property will be valued via a DCF also known as the Development Procedure. This is defined as

"The procedure for valuing undeveloped acreage that involves discounting the cost of development and the probable proceeds from the sale of developed sites."

This DCF takes into account the retail lot value ("finished lot") as part of this process. In determining the finished lot value the Sales Comparison Approach will be utilized.

In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject property that have recently sold, are listed for sale, or under contract (i.e. for which purchase offers and a deposit have been recently submitted). After determining the retail value of the subject property (Gross Revenues), the next step in the DCF Analysis is to determine an absorption period for the sale of the remaining units owned by the master developer. Next, the costs associated with the subject development (to bring the lands from the current condition) to a "finished lot" condition need to be determined along with a construction schedule. These costs need to be deducted from the Gross Revenues. Next, the carrying costs associated with the project need to be addressed along with estimated marketing costs and contingency factors associated with the development of the project. Finally, the resulting cash flow needs to be discounted by an appropriate discount rate due to (1) the time value of money; (2) the risk associated with the project; and (3) profit due to the master developer. The analysis of the above revenues and costs results in a present value of the subject property in its "as is" condition.

The Section III valuation focuses on the "gap properties". As indicated in this section, the residential sales are considered to represent Market Value. In addition, parcels in the Business Park, which have been improved, but not yet reflected on the Assessor's Roll are valued and reported in this Section. A list of the recorded sales is included in this section indicating sales date, sales price and Assessor Parcel Number ("APN").

The Dictionary of Real Estate Appraisal, AIREA, 1989

Summary Appraisal Report - Complete Appraisal
Community Facilities District No. 90-2
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buildings which have been improved and reported via the 2002/2003 Orange County Assessor's Section IV is the reporting of the Assessed Values for the existing homeowners and the industrial

SCOPE OF APPRAISAL ASSIGNMENT

The scope of this appraisal assignment involved the following.

- A review of the Limited Liability Company Agrecment of Talega Associates, LLC dated May 29, 1997. _:
- A review of the Agreement between Capistrano Unified School District and Arvida/JMB Partners L.P. II dated April 16, 1991; and subsequent Amendment No. 1 dated May 30, 1997.

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- A review of the Official Statement for the bond issue by Santa Margarita Water District (Improvement District No. 71A, 1984 bonds, Series A, dated August 1, 1990) and the Official Statement for Santa Margarita Water District CFD No. 91-1.
- review of the Development Agreement between the City of San Clemente and Talega Associates, LLC dated October 2, 1998. 4
- A review of Development Agreement between the County of Orange and Talega Associates, LLC recorded October 5, 1999. Š
- A review of the Talcga Specific Plan dated June 1992. 9
- A review of the Talega Environmental Impact Report, prepared by EDAW, Inc. dated August 7
- A review of the County of Orange Board of Supervisors Resolution No. 90-259 canceling the Agriculture Preserve which had affected a portion of the property œ.
- A review of cost prepared by The Moote Group. These cost estimates are identified as "Builder Improvement Costs" and relate to the obligation of the merchant builder to complete lots to a "finished lot" condition from either a mass graded pad or a blue top condition. A detailed list of these costs is located in the appraiser's files. ď

- A review of costs for "backbone" infrastructure. These costs were determined by the engineer to be reasonable.4 10.
- A draft report on biological information to support issuance of an Interim Habitat Loss Permit for a portion of the Talega Development Project (May 18, 2000). ≓
- A review of a 1603 Permit extension request dated April 19, 2000. 17.
- A review of the Market Absorption Study of Community Facilities District No. 90-2 prepared by Empire Economics dated August 2002. 13.
- A review of tract maps that effect the subject property. 4.
- A review of the Area Plan 89-82 and related entitlement actions by the San Clemente City Council on March 17, 1999. 12
- A review of Supplemental Environmental Impact Report for the Talega SPA/GAP dated October 2001 16.
- A review of the Talega Specific Plan adopted by the City of San Clemente on December 12, 2001 (Resolution No. 01-76) and adopted by Talega Joint Planning Authority on December 17, 2001 (Resolution No. 01-05). 17.
- A review of the Amended and Restated Development Agreement between the City of San Clemente, Talega Joint Planning Authority and Talega Associates, LLC dated February 27, <u>8</u>
- A review of the Final Habitat Mitigation and Monitoring Plan prepared by Vanderhost Consulting Services, Inc. dated April 10, 2002. 61
- A review of Resolution No. 02-72 regarding the approval of the site Plan (Permit SPP 02-071, Talega Village Center Commercial Site Plan). 20.
- A review of the U.S. Army Corps Individual Permit Authorization, Certificate of Compliance, Permit No. 200001687-FT dated March 18, 2002. 21.
- A review of the recorded transactions of purchase by individual homeowners that have occurred for each Planning Area. In addition, a review of the pending transactions and status of each of the homes in the Planning Arcas was completed. ä
- A collection of market data relating to the different product types proposed within the Talega 23.

Summary Appraisal Report - Complete Appraisal Communty Facilities District No. 90-2

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Refer to correspondence dated September 27, 2002 located in the Addenda of this report Sumnary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

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- A review of the Regional Water Quality Control Board order for technical and conditioned certificate No. 01C-089 dated March 1, 2002.
- A review of the California Department Fish and Game Agreement regarding the Steambed Alteration Agreement, Permit No. R5-2002-0060 dated March 28, 2002.
- 26. A review of correspondence from U.S. Army Corps of Engineers dated May 30, 2002 authorizing Talega Associates, LLC "notice to proceed" with the changes incorporated into the Habitat Mitigation and Monitoring Plan dated April 11, 2002.

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Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Capirtama Unified School District Brace W. Hull & Associates, Inc.

GENERAL AREA DESCRIPTION

LOCATION

Orange County encompasses a total of 798 square miles, which include 42 miles of coastline along the Pacific Ocean and 4 miles of inland water. Orange County is bordered by San Diego County to the south; Riverside and San Bernardino Counties to the east; Los Angeles County to the north; and the Pacific Ocean to the west. The County is generally segregated into three major areas known as North Orange County, and South Orange County. The subject is located in the area known as South Orange County, which encompasses the communities of Irvine, Lake Forest, Laguna Beach, Laguna Hills, Aliso Viejo, El Toro, Mission Viejo, Rancho Santa Margarita, Coto de Caza, Dove Canyon, San Juan Capistrano, Dana Point, Capistrano Beach, San Clemente and smaller unincorporated areas. The natural terrain varies from coastal beaches to foothills and the mountainous region of the Cleveland National Forest along the northeast boundary line of Orange County. The climate is generally Mediterranean with sunshine and moderate to low rainfall.

POPULATION

The population of Orange County had extremely rapid growth between the years 1960 through 1970. Sometime between mid-1989 and mid-1990, a recession began in Orange County as with the rest of Southern California. In December of 1994, the County of Orange filed bankruptcy. The year 1996 appeared to begin a slow recovery for the County while 1997 resulted in a full recovery as the economy is strong once again. As shown in the following chart, the population has continued to show positive growth throughout the 1990's recession with the exception of 1996, which had a 0.6% decline.

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		Average	Average	
Year	Population	Annual Increase	Percent Increase	
1960	703,925	-	1 2 2	
1970	1,420,386	71,646	8.5%	
1980	1,931,570	51,118	3.6%	
1990	2,410,556	47,899	2.5%	
1661	2,453,300	42,744	1.8%	
1992	2,512,200	58,900	2.4%	
1993	2,557,300	45,100	1.8%	
1994	2,596,500	39,200	1.5%	
1995	2,641,400	44,900	1.7%	
1996	2,624,300	(17,100)	(0.6%)	
1997	2,647,200	22,900	%6.0	
200	0000	13033	7 3 5 6	
2002	7,840,289	00,303	7.1%	
2010	3,104,100	25,781	%6:0	
2020	3,306,400	20,230	%9.0	
ource: Fe	Source: Focus Orange County	-		

Current growth predictions are much lower than the 1.8% per year historical growth rate in Orange County, which occurred from 1990 to 2000. Orange County is still projected to grow by the size of a small town of about 23,000 people every year for the next twenty years. Put in absolute numerical terms rather than a percentage, the County's anticipated population growth is far from stagmant.

HOUSING

The housing growth in Orange County has paralleled the population growth. The 2000 Census reported the average household size to be 3.063 persons, which translates to approximately 966,086 housing units. In January of 2000, the population in Orange County was 2,846,289, an increase of 18.1% from the 1990 census. This translates to an average annual growth rate for households of approximately 1.8%. Future predictions from County Planning Departments are for the household size stabilizing at 3.0 persons per household. Most of this population growth is expected in South Orange County where there is still land available for development.

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Most statistics are showing slower economic growth for the Orange County economy continuing through the year 2002. Orange County housing prices saw a decrease during the recession of the early 1990's along with the remainder of Southern California. Sales were down substantially from 1989-1990 prices with values beginning to recover in 1995. Since 1995 prices of housing have surged with new home prices for 2rd quarter 2002 at \$595,866, an increase of 15% from a year earlier (2rd quarter 2001).

An Empire Economics report (August 2002) has indicated the following demand in Southern California.

Time Periods	Time Periods Employment Growth	New Housing Demand
2001-2005	822,239	382,672
2005-2010	812,660	489,949
2010-2015	500,499	458,421
2015-2020	344,985	509,417

The report states that during that time period (2000-2020) Orange County employment growth will be 472,200, a 1.44% increase with 458,421 housing units created (.71% increase.)

The Meyers Group, a real estate consulting company, has indicated that for the 2nd quarter 2002, 1,736 houses sold, which was a 1% decline from 2nd quarter 2001. The decline was attributed to the decrease in the number of active projects in the coastal submarket.

The median detached house price for new homes in the coastal south submarket is \$578,527, a 28.3% increase from the same period last year. Attached townhomes/condominiums median base pricing was a 177.9% increase over the same period last year.

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Both reports indicate the demand for new housing in the South Orange County marketplace, although it appears that it will be at a slower rate. Empire Economic states the following in its August 2002 report as it relates to the subject project.

recent absorption rate, some 3,000 units, reveals that these projects will be built-out during the next three years. Consequently, if the current economic and financial market conditions Orange County will encounter a significant shortage due to supply constraints. Thus, the residential market conditions for the currently active and forthcoming PC, are expected to "Therefore, as the various Planned Communities ("PC") approach build-out, there is a comparison of the supply of homes in the currently active projects, some 9,635, with the continue to generate a strong demand for housing, then the residential market in South reduction of the supply of residential products that are coming to the marketplace. A be very favorable."

EMPLOYMENT/ECONOMY

The State Employment Development Department (EDD) indicated that Orange County's jobless rate was 4.0% as of August 2002. This is an increase from the rate of 2.5% in July 2002. This compares favorable when compared to the unemployment rates of 6.8% in Los Angeles and 6.2% in California for the same time period. The total number of non-farm jobs in Orange County grew to 1,412,900. Services, trade, retail and manufacturing have had positive changes from the previous month. Government employment trends have decreased slightly.

While there has been an uptick in employment, the housing market continues to show strength. The The years 1997 and 1998 saw economy recovery from the 1990-1995 recession. This was indicated by new construction and leasing activity countywide. Thus far, 2002 has seen an economic median price of a home in Orange County was \$536,212 in 2rd quarter 2002, up sharply (17%) from slowdown with monthly employment growth slowing in the second half of $2000\,\mathrm{from}\,3.2\,\mathrm{to}\,2.8\%$ the same period last year of \$458,390

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TRANSPORTATION

Transportation throughout the County consists of an extensive freeway system, a toll road system, a commercial airport, public bus service, Amtrak passenger rail service, and freight rail lines.

This is anticipated to occur within the next six years (2007). In addition, San Joaquin Hills Transportation Corridor is a corridor that provides a direct route between Newport Beach (MacArthur Boulevard) and Laguna Hills/Laguna Nigue! (Interstate 5) making the commute approximately one half the mileage and time, which was previously needed. The San Joaquin Hills Transportation Corridor bisects the community of Aliso Viejo. Both of these new corridors are toll roads, which are helping to alleviate traffic on Interstate 5 and the 405 Freeway and access to South In 1991, voters approved Measure M that provides for a one-half cent sales tax increase to provide for transportation demands in Orange County. As a result, many of the Orange County freeways have recently been or are currently being upgraded. Prior to the opening of the Foothill Transportation Corridor, the only access to inland South Orange County was via El Toro Road, which was extremely congested. Currently the Foothill Corridor helps alleviate this traffic problem making inland South Orange County more accessible. The corridor is anticipated to be constructed to the San Clemente area. By far the most widely used transportation in the County is the automobile. Orange County easier.

SUMMARY - ORANGE COUNTY

appear to have a significant affect on growth in the County. The County began to exhibit signs of Orange County has benefited from its desirable location, favorable climate, extensive recreation recovery from the 1990's recession in 1995 with a stronger recovery in 1996 through 2002 showing exceptional economic strength. While there appears to be a slowdown from economic growth when compared to the 1996 to 2000 time period, the long term forecast for the County is for continued amenities, and employment opportunities. Population and housing base gains have grown steadily due to these factors coupled with its diversified economy. The bankruptcy of the County did not growth.

Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Puge 13

CHRONOLOGICAL HISTORY OF THE TALEGA PROJECT

The following is a summary of chronological events as it relates to the subject masterplanned development. Broadmoor Development Company submits a specific plan for Talega Valley, which was subsequently withdrawn. June 1982:

Rancho Mission Vicjo Company submits a specific plan. Plan was a subject of a preliminary EIR prepared by Westec Scrvices. June 1983:

Rancho Mission Viejo Company amended the specific plan. September 1984: Sania Margarita Company transfers 1,420 acres to Talega Valley Partnership for total consideration of \$13,758,030. April 1987:

O'Neil/Avery Trust transfers 771.070 acres to Talega Valley Partners for \$7,629,483. April 1, 1987:

San Juan Company transfers 10.278 acres to Talega Valley Partners for \$612,487. April 1, 1987:

Final Environmental Impact Report No. 482 was approved by County of Orange (Resolution No. 88-620). May 4, 1988;

Feature Plan approved for portion in the County of Orange referred to as Rolling Hills (Resolution No. 88-620). May 4, 1988:

May 4, 1988:

Planned Community Regulations approved in the County of Orange referred to as Rolling Hills Community (Resolution No. 88-620).

Final EIR (84-02) approved by the City of San Clemente for portions of the lands within the City of San Clemente. August 10, 1988:

General Plan Amendment approved by City of San Clemente (Resolution No. 88-63). August 10, 1988:

Talega Valley Specific Plan (SP 84-02) approved by Resolution No. 88-64. August 10, 1988:

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US ACOE 404 Permit. March 9, 1989:

CDFG 1603 Permit. March 16, 1989: Regional Circulation Funding and Phasing Program approved by the City of San Clemente. March 28, 1989:

US ACOE 404 Permit. April 7, 1989: Talega Valley Partnership transfers 2,201.752 acres to Arvida/Talega Valley Limited Partnership for \$76,943,013. May 8, 1989:

Local Park Implementation Plan approved by City of San Clemente. February 15, 1989;

Local Park Implementation Plan approved by County of Orange. February 22, 1989:

Resource Management Plan approved by the City of San Clemente. June 23, 1989:

Resource Management Plan approved by County of Orange.

March 13, 1989:

September 13, 1989: Zone Change 89-06 approved by the County of Orange (Resolution No. 89-

Tentative Tract Nos. 13873, 13874, 13875 and 13876 approved by the County of Orange. October 4, 1989;

Tentative Tract Nos. 13878, 13879, 13880 and 13881 approved by the County of Orange. December 7, 1989:

Cancellation of Williamson Act Agreement approved by the County of Orange (Resolution No. 90-259). March 21, 1990;

Tentative Tract Nos. 13884, 13885, 13886, 13887 and 13892 approved by the County of Orange. January 3, 1990:

Rancho Mission Viejo Conservancy approved by the City of San Clemente. April 18, 1990:

Runoff Management Plan approved by the County of Orange. August 18, 1990: Tentative Tract Nos. 13888, 13889, 13890 and 13891 approved by County of Orange. February 15, 1990:

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Summay Appraisal Report – Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Captarono Unified School District Brace W. Hall & Associates, Inc.

August 17, 1999;	City approval of SPP 99-106.	March 23, 2000:	Site Plan 99-193; TTM 15955; Site Plan 99-201; and Master Signage	Signage
August 24, 1999:	City approval of CUP 99-96 and 99-93.			
August 24 1999	Talees Inint Planning Authority: Development Agreement 98-1; and $6^{\rm th}$	April 4, 2000:	Master Signage Program 00-02 and Site Plan 99-193.	
Cuguetti Cara	Addendum to EIR 482.	April 13, 2000:	TTM 13880 Revision No. 4 and Site Plan 00-15.	
September 1, 1999;	First Amendment LPIP; County approval of TTM 15854; 7th Addendum to RIB A87	May 9, 2000:	Minor Arch Permit 00-53.	
	LAIN 402.	May 16, 2000:	Annexation No. 2 to the City of San Clementc.	
September 21, 1999:	September 21, 1999: County approval of Final Tract Map 13873 and Final Tract Map 15799.	May 17, 2000:	AVH Int. Reimbursement Agreement.	
September 24, 1999:	September 24, 1999: Master, Supp & Maint. CC&Rs.	May 30, 2000.	Bucines Park CC&Rs	
October 6, 1999:	TTM 14227.	Mdy 30, 2000.	Dustinos I an Coans.	
Orfohor 9 1000.	Annavostion No. 1 to the City of Sen Clemente	May 30, 2000:	Lot Line Adjustment 99-172.	
October 8, 1999.	AND ACCOUNTS OF THE ACCOUNTS O	June 7, 2000:	Affordable Housing Option Agreement.	
October 19, 1999:		June 15, 2000:	City Annexation No. 3.	
November 19, 1999:	County approval of Final Tract Map 15798.	June 15, 2000:	FPA 00-45 (FPA #5) and 8th Addendum to EIR 482.	
November 29, 1999:	County approval of Site Plan 99-155 and Site Plan 99-135.	June 10, 2000:	Neighborhood Park Master Plan	
December 1, 1999:	USFWS Section 4(d) Permit - Village 2.	June 21, 2000.	City Engage Schools Breezis 00 22	
December 15, 1999 :	City approval of TTM 14224/SPP 99-159 and TTM 14226/SPP 99-158.	Julie 21, 2000.	City Enviousing in the course of the course	
December 22, 1999:	Lot Line Adjustment 99-169.	June 29, 2000.	City approval of Final 1 ract Map 14228.	
January 20, 2000:	TTM 15921/SPP 99-146/CUP 99-147; TTM 15953/Site Plan 99-182; and	July 6, 2000:	County approval of Final Tract Map 13868.	
	extension of TTMs 13884/13885.	July 21, 2000:	Lot Line Adjustment 2000-101.	
January 25, 2000:	TTM 15764 Sub. Conformance Finding.	July 26, 2000:	Lot Line Adjustment 2000-97.	
February 10, 2000:	Extension of TTMs 13878 and 13880.	August 8, 2000:	County - Final Tract Map Nos. 13880 and 15953.	
February 15, 2000:	Final Tract Maps 13878 and 13894.	August 1, 2000:	Approval of Final Tract Maps 15947 and 15948.	
February 22, 2000:	Site Plan 99-189.	August 16, 2000:	Annexation No. 9.	
February 24, 2000 :	TTM 15954/Site Plan 99-187.	October 4, 2000:	TTM 16071, SPP 00-78.	
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Standard Pacific Model CUP Extension. October 10, 2000:

Annexation No. 12. October 24, 2000:

Annexation Batch 2. October 31, 2000: TTM 16124/SPP 00-100. November 1, 2000:

November 14, 2000: SPP 00-142.

November 21, 2000: Minor CUP 00-187, Minor SPP 00-188.

November 30, 2000: SMWD Tank Site Quitclaim/Grant Dccd.

Standard Pacific Model CUP Extension.

December 6, 2000:

December 19, 2000: County - Final Tract Map Nos. 15954 and 15955.

December 19, 2000: Approval of Final Tract Maps 14224 and 14226.

December 19, 2000: Approval of Final Tract Maps 14224 and 14226.

TPM 2000-223, SPP 00-193 and 00-209. January 2, 2001: SPP 00-165, VAR 00-166, Ewing Irrigation Plan. January 16, 2001:

Apartment Site final map records (Tract No. 13898). RDEB's awards for Village Center (123 units). April 4, 2001: May 17, 2001: Business Park Village 2 final map records (Tract No. 13917). June 27, 2001: Planning Area 2-Q amended final map records (Tract No. 14954). June 29, 2001:

Business Park Village 2 final map records (Tract No. 13918). August 27, 2001:

November 28, 2001: Amended TTM 13935/SPP 90-54 (Citation Homes).

November 28, 2001: Amended Tentative Tract map approval for Planning Area 3-G (139355).

December 12, 2001: City approval of amended Development Agreement.

December 12, 2001: City approval of amended SPA 98-05.

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December 12, 2001: SPA 98-05 approved by City of San Clemente.

December 14, 2001: Final Tract Map No. 13935 approved.

December 17, 2001: Talega Joint Powers Authority adoption of SPA 98-05, and GPA 98-05.

December 17, 2001: Talega Joint Powers Authority adoption of Amended Development

Agreement.

U.S. Army Corps of Engineer 401/404 Permit. March 1, 2002 State of California Department of Fish & Game 1603 Agreement. March 28, 2002:

U.S. Fish and Wildlife 4(d) Permit. March 20, 2002: Fentative Tract Map No. 16148 for Village 3 approved (246 lots). April 3, 2002: Pinnacle II (BRE) apartment project approved (TT Map No. 13888). April 11, 2002:

Final Tract Map No. 16253 for Village Center approved. May 3, 2002: Approval of Tentative Tract Map No. 16337 (Village 3 Finance Plan). June 5, 2002:

RDEB awards for Village 3 (483 units). July 3, 2002: SPP 02-071 Approval of Village Center commercial plan. July 15, 2002: AM SPPs 98-112 and 99-131 (currently under appeal) Golf Maint. Facility. July 16, 2002:

Fentative Tract Maps 16334, 16335, 16336, 16338, 16339 and 166370. Pending: Annexation No. 28 for Jamboree Housing Villages 1 and 2 annexation. Pending:

Village 3/Avenida Talega U.S. Fish and Wildlife 4(d) Permit. Pending:

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COMMUNITY FACILITIES DISTRICT NO. 90-2

The Capistrano Unified School District had entered into a school mitigation agreement with Arvida/JMB Partners, LP II (the "Company") who were the owners of the property within the boundaries of CUSD. The purpose of this agreement was to mitigate the anticipated need for school facilities to house students generated by the anticipated development of these properties. This agreement was executed on April 16, 1991.

would vary according to land use. These tax rates are estimated to range from 1.78 to 2% for the residential product. These tax rates took into consideration the Santa Margarita Water District CFD According to the proposed financing, the total tax rate (including ad valorem tax rate of 1.003) No. 99-1 and the subject Capistrano Unified School District CFD No. 90-2, and Improvement Area 1 of Capistrano Unified School District. Improvement Area No.1 of CFD 90-2 has been formed, but not yet funded or bonds issued, for a portion of CFD 90-2. Specifically, this Improvement Area is for Villages 3, 4, 5 and 6.

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Capistrano Unified School District
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AMENDMENT NO. 1 TO MITIGATION AGREEMENT

This document was executed on March 29, 1996. Arvida/IMB Partners, LP II sold all of the 1997, and as of said date Talega Associates, LLC has assumed all obligations and succeeded to all property located within the boundaries of CFD No. 90-2 to Talega Associates, LLC as of May 30, rights of Arvida/JMB Partners, LP II.

School District and Arvida/IMB Partners, LP II dated April 16, 1991. The Mitigation Agreement is now in full force and effect. CFD No. 90-2 was formed and authorized to levy special taxes and to issue bonds not to exceed \$10,000,000 for the purpose of funding the costs of acquiring, leasing and CUSD and the Company has amended the Mitigation Agreement to change the school site description, the source of payment thereof, and the CFD No. 90-2 special tax rates to increase the CUSD and the Company had previously entered into an agreement between Capistrano Unified construction certain school facilities to mitigate the impact of the development of the Property. permitted bond authorization to \$50,000,000.

and Taxable Senior Housing Property are listed below. The maximum tax is the greater of the assigned special tax and back-up tax. The reader should note that excluded from the subject tax and An Amended and Restated Rate and Method of Apportionment for CFD No. 90-2 was prepared by David Taussig & Associates, Inc. (June 7, 1999). The Assigned Special Tax for Developed Property this appraisal report is the senior housing.

Assigned Special Tax	2002/2003	\$0.3496 per sq. ft. of	residential floor area	\$0.3496 per sq. fl. of	residential floor area	\$0.0635 per sq. ft. of	non-residential floor	area
	Description	Residential Property		Taxable Senior Housing Property		Non-Residential Property		
	Land Use Class	-		2		3		

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

The maximum tax rate escalated at 2% per year beginning in 2000/2001. The undeveloped land will be taxed on the basis of \$6,555 per acre and escalates at 2% per year. A complete copy of the Amended and Restated Rate and Method of Apportionment is included in the Addenda of this report.

DEVELOPMENT AGREEMENTS

The subject project is currently bisected by two jurisdictions. The property is located within the City of San Clemente and the County of Orange. The City of San Clemente executed a Development Agreement on October 7, 1998 and amended it on February 27, 2002 (Doc. 200202231933, recorded March 12, 2002). The more pertinent details are as follows.

October 2, 1998 and amended February 27, 2002

Date:

Talega Associates LLC Developer:

City of San Clemente Jurisdiction:

Developer and City desire to annex the Sphere of Influence Property to the 1,604 acres of land located in the City of San Clemente. In addition Land:

City. (This is an additional 792 acres that is currently within the unincorporated area of Orange County.)

Twenty years from effective date (amended February 27, 2002)

Тепп

be a maximum of 2,265 units. (Property refers to the 1,604 acres within the City.) Section 3.2.2 of the Amended Agreement indicates the number of Section 3.2.2 of the original Development Agreement indicates the total number of market residential units to be constructed within the Property shall Density:

units does not exceed 4,500 units.

For planning areas that do not receive the full maximum allowable of residential units due to site planning considerations, the Development Agreement allows the transfer of density to other planning areas. Density Transfers:

Measure B is a growth initiative that limits the annual number of residential Measure B:

units to 500. As part of the Development Agreement (Section 3.10.2) both parties agree "During the Term of the Agreement, City agrees that no amendment to Measure B and no policy shall apply to the Property if and to the extent that the same either (i) reduces the number of residential allocations that City can approve or issue in any one year below the number of allocation now authorized by Measure B or (ii) further reduces or restricts the exemptions set forth in Sections 15.44.020 of the Municipal Code

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(original agreement)".

(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

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The Amended Development Agreement between the City of San Clemente and Talega Associates LLC states that no amendments to Measure B and new city ordinances, resolutions, rule regulations, or official policy shall apply to the City Property.

As part of the Development Agreement the developer has agreed to pay certain fees. These are detailed below.

Fees:

Community Enhancement Fees of \$8,000,000.

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- Fire Station Fee of \$1,645,000. ف.
- A Park Fee in the amount of \$9,363,531. This fee is to be paid by Developer prior to recordation of tract map based on an amount of \$4,572 per unit. ပ
- "85-01" Sewer Bond Assessment Fee in the amount of \$1,618,218.90 was paid by Talega Associates, LLC. The Developer is entitled to 196,120.27 gallons per day of wastewater treatment from City's wastewater plant. ö

Development

determined that per conditions of 6.3 of the Amended Development Agreement that have been cited, the development of 3,400 residential units can be accommodated in the Talega Property in six Villages without violating The City has evaluated the traffic impacts associated with the project and has LOS standards. (LOS is referred to standards set forth in the City existing

General Plan and RCFPP for defining the traffic service levels on roadways

and intersections.)

Agreement and the conditions described on Page 31 of the Amended Development Agreement have been satisfied, the Public Agency parties shall not withhold residential building permit or take any action to prevent or delay Developer from constructing on the Talega property the maximum number of residential units permitted for that phase on the basis of the Talega Project's impact on a Public Agency's Party traffic circulation system or any alleged Accordingly, if Developer timely performs its obligation as set forth in the violation of LOS Standards.

Extension of

Avenida Vista

Hermosa and Avenida La Pata:

City and Developer agree to a maximum cost of \$4,800,000 for the construction cost and offsite pad improvements for the La Pata extension.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(Talega Project)

Capistrano Unified School District Bruce W. Hull & Associates, Inc.

Specific Plan Amendment:

Environmental

The EIR has been updated per the CEQA review process and has been approved. Approval of this Amendment occurred in December 2001. Section 15.4 of the Amended Development Agreement cites the following as it relates to Environmental Review. "With respect to meeting any requirements of CEQA, Developer shall provide all information required of it and shall pay for any necessary studies existing environmental reports and studies without requiring new or supplemental environmental documentation." and reports, and City shall process such matters in accordance with this section 15.4 and, to the extent permitted by CEQA, shall use and adopt

recorded on October 5, 1999 (Document No. 19990706758). The following represents pertinent A separate development agreement between Talega Associates LLC and the County of Orange was information from this document.

Falega Valley LLC Developer:

County of Orange Jurisdiction: Recorded October 5, 1999 Date:

Regulation Governing the Development of

This section deals with permitted uses (in accordance with existing land the Property:

use); total number of units; density (as set forth in Development Plan); maximum height and size of buildings (per Development Plan); reservation and dedication of lands for public purposes and participation in RCFPP; no density increases; and timing of development (at owner's discretion).

This section specifies that the owner is provided and assured the vested right to develop the property. Regulation of Development:

August 1, 2014 erm of Agreement:

Effect of Agreement on Title:

the land.

Subject to Sections 6 and 15, the covenants of the Agreement run with

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

Capistrano Unified School District Bruce W. Hull & Associates, Inc. (Talega Project)

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Development Agreement Benefits to County and Its Residents:

Per Exhibit D, the Development Agreement Public Benefits are as follows:

- Foothill Transportation Corridor Owner will participate in Foothill Fransportation Corridor Fee Program and provide right-of-way for the corridor, which transverses the Property.
- Extension of Avenida La Pata Owner shall participate in supplementary Avenida La Pata Road Fee Program.
- Additional Highway Improvements This would include funding of improving Ortega Highway (Owner's obligation being \$950,000). 8
- 4) South County Natural Community Conservation Plan Contribution of \$250,000.
- 5) Library Owner will pay a library fee of \$300 per residential unit.
- Scenic Preservation Easement Owner will provide a scenic preservation easement over the 18-hole golf course. ତ
- 7) Child Care Owner agrees to participate in a child-care facility.
- master plan local drainage and flood control facilities required by Development Approach per "Talega Valley Runoff Management Plan (January 1990)". Drainage and Flood Control Facilities - Owner shall construct
- Owner shall prepare and submit to County, in consultation with the Regional Riding and Hiking Trails and Class I Bikeway Plans -City, Riding and Hiking Trails and Class I Bikeway Plans.
- identified for improvements in connection with construction of the 10) Streambed Restoration - Owner shall restore the streambed golf course.

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TALEGA VALLEY SPECIFIC PLANS

September 30, 1998. This amendment was approved in the latter part of 2001. The County of the County of Orange. Both jurisdictions have approved specific plans on their portions of the on July 1, 1992 (SPA 91-58). In addition there was an amendment (SPA98-05) submitted in Orange approved The Rolling Hills Feature Plan in September of 1989. In August of 1992, two amendments were adopted, and in October 1998 a third amendment was approved which to the Feature Plan (FPA 00-45) was submitted to eliminate health facilities land use designation and The Talega Project consists of 3,510 acres within the jurisdiction of the City of San Clemente and property. The City of San Clemente approved the Talega Specific Plan in 1988 with an amendment reconfigured the golf course and further refined the loop collector road. The most recent amendment expand two medium high-density residential areas.

Tatega Vallcy Associates has received an amendment to the Specific Plan Amendment for the City of San Clemente (December 2001 - SPA 98-05).

2	RESIDENTIAL LAND USES	AND US	ន		
		*	Acres	Dwel	Dwelling Units
Residential Designation	Density (Units/Grs. Ac.)	City	Sphere of Influence	City	Sphere of Influence
L - Residential Low	0 - 4.5 du/ac	262.5	11.4	511	14
LM Residential Low Medium	4.5 - 7 du/ac	251.2	138.3	1162	629
M - Residential Medium	7 - 15 du/ac	78.9	119.5	239	1194
MH - Residential Medium High	15 -24 du/ac	30.2	5.7.5	353	813
H - Residential High	40 du/ac	0.0	5.8	0.0	110
	Subtotals	622.8	340.6	2689	1811
	Totals	96	963.4	4,	4,500

Source: Specific Plan Amendment (SPA 98-05)

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

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PUBLIC FACILITIES AND OPEN SPACE LAND USE SUMMARY	OPENS	SPACE LAND USE S	UMMARY
Land Use Designations	Clty	Sphere of Influence	Totals
Public Facilities			
ES - Elementary School	15.0	0.0	15.0
P - Public and Private Parks ¹	29.1	20.2	49.3
RP - Regional Park	5.9	8.2	14.1
Subtotal	50.0	28.4	78.4
Open Space			
GC - Golf Course	183.2	44.5	1.122
OS - Open Space ²	479.1	360.6	839.6
OS - Talega Reserve	175.0	0.766	1172.0
Subtotal	837.3	1402.1	2239.3
Total	887.3	1430.5	2317.8

Approximately 21.5 acres will be designated for public parks. The remaining acreage will be used for private recreational facilities. Approximately 45.2 acres of the open space are designated which rithe Village Center. The Talega Reserve is not in the CFD. Ξ

3

3

Source: Specific Plan Amendmen

The master developer proposes to develop fewer units (3,866) that have been approved or are currently being considered in SP 98-05. The total units anticipated by the master developer is substantially less than the approved 4,500 per SP 98-055. As part of the Development Agreement between the City and Talega Associates, the master developer (Talega Associates) will file with the Orange County Local Agency Formation ("LAFCO") a petition for the annexation of the Sphere-of-Influence area to the City. Talega Associates has filed annexation petitions with LAFCO for the annexation of the Business Park area, a portion of the golf course and most residential areas within Village 2. As of August 1, 2002, twenty-seven annexations totaling 496 acres have been completed.

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Joint Planning Authority ("Authority"). This Authority is authorized to exercise the police powers The City and County have entered into a joint exercise of powers agreement establishing the Talega of the City and County to regulate the planning and development of the Sphere-of-Influence area.

TALEGA RESERVE

conservation purposes. These lands are not within the CFD boundaries and are included in this Approximately 1,172 acres of open space within the Talega Project exists as the Talega Reserve. The Rancho Mission Viejo Land Conservancy has been established as a non-profit corporation with the express purpose of preserving the land in the reserve for educational, recreation, scenic, and report for descriptive/informational purposes only.

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THREE-YEAR SALES HISTORY

A number of transactions occurred between Talega Associates LLC and various merchant builders in

December 1998. These are detailed below.

TRANSACTION NO. 1

NWC Avenida Talega and Avenida Vista Hermosa, San Clemente Location:

1-D/E, 1-F/G, Village 1 Planning Areas:

Nos. 15756 and 13686 Purchase and Sale Tentative Tract:

December 30, 1998 January 6, 1999 Agreement Date: Recorded Date:

19990008003 Document No.:

Talega Associates LLC Seller:

Catellus Residential Group, Inc. Buyer: 5000 sf (68) and 5500 sf (80)

Size:

80 single-family residence lots; 68 single-family lots. No. of Lots:

\$18,875,800 Purchase Price: Blue-top condition Condition of Property: Price Per Lot:

\$106,582 - 5,000 sf lots \$145,420 - 5,500 sf lots

\$140,502 - 5,000 sf lots \$179,391 - 5,500 sf lots Price Per Finished Lat:

TRANSACTION NO. 2

NEC Alicante and Corte Tabarco, San Clemente Location:

2-G, Village 2 Planning Area:

No. 15798

Tract:

Purchase and Sale

December 21, 1998 Agreement Date: December 24, 1998 Recorded Date:

19980892547 Document No.:

Talega Associates LLC Seller: Shea Homes Limited Partnership Buyer:

4,250 sf Average Lot Size: 140 single-family residential lots No. of Lots:

\$14,154,710 Purchase Price:

Mass-graded

Condition of Property:

\$101,105 Price Per Lot: Price Per Finished Lot: \$133,320

TRANSACTION NO. 3

Location:

NWC Avenida Pico and Camino La Pedriza, San Clemente

2-I, Village 2 No. 13894 Planning Area: Tract:

Purchase and Sale

December 23, 1998 Agreement Date: December 28, 1998

Recorded Date:

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	•	
	Price Per Lot:	\$79,412
	Price Per Finished Lot:	\$111,930
	TRANSACTION NO. 5	
	Location:	N/S Avenida Pico; W/O Camino La Pedriza, San Clemente
	Planning Area:	2-H, Village 2
	Tract:	No. 15799
	Purchase and Sale Agreement Date:	December 11, 1998
	Recorded Date:	December 18, 1998
	Document No.:	19980873741
	Seller:	Talega Associates LLC
	Buyer:	William Lyon Homes, Inc.
	Size:	2,700 sf lots
	No. of Lots:	120 single-family detached residential units
	Purchase Price:	\$8,200,000
	Condition of Property:	Mass-graded
	Price Per Lot:	\$68,333
	Price Per Finished Lot:	\$104,304
	TRANSACTION NO. 6	
	Location:	NWC Camino La Pedriza and Calle Altea, San Clemente
	Planning Areas:	1-H/l, 1-J, Village 1
	Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Talego Perject) Continuo Tustin School Desired	mplete Appraisal 90-2
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NWC Avenida Pico and Calle Alicante, San Clemente

2-F, Village 2

Planning Area:

Location:

No. 13878

Tentative Tract:

Lennar Homes of California, Inc.

Talega Associates LLC

Seller:

Buyer:

Size:

1998089344

December 23, 1998 December 28, 1998

Purchase and Salc Agreement Date:

Recorded Date: Document No.: 86 single-family attached units

\$6,829,412

Purchase Price:

No. of Lots:

Summary Appraisal Report - Complete Appraisal
Community Facilities District No. 90-2
[Tigling Project
Capternou Unified School District
Brace W. Hull & Associates, Inc.

3,150 sf lots

Page 35

Condition of Property: Mass-graded

Lennar Homes of California, Inc.

Buyer:

Size:

Seller:

Talega Associates LLC

19980895473

Document No.:

105 single-family attached units

Mass-graded

Condition of Property:

\$43,810

Price Per Lot:

Price Per Finished Lot: \$79,261

TRANSACTION NO. 4

\$4,600,000

Purchase Price:

No. of Lots:

8.2 acre site; 12.8 du/ac

Tentative Tract:	Nos. 13683 and 13684	Seller	I alega Associates LLC
Purchase and Sale	Documber 21 1008	Buyer:	Woodbridge Development, Inc.
Agreement Date:	December 21, 1770	Size:	5.2 acres
Recorded Date:	December 24, 1998	No. of Lots:	14
Document No.:	19980895272	Lot Size:	11.200 sf lots
Seller:	Talega Associates LLC	Purchase Price:	\$4 .000,000
Buyer:	Standard Pacific Corporation	Condition of Property	
Size:	108 single-family 4,950 sf lots; 47 single-family 6,000 sf lots.	Price Per I of:	
No. of Lots:	108 single-family detached residential units "StanPac 108" and 47 single-family detached residences "StanPac 47".	Price Per Finished Lot:	
Purchase Price:	\$20,411,000	TRANSACTION NO. 8	®6
Condition of Property:	Blue-top condition	Location:	Calle Pacifica and Camino La Pedriza (across street from 2-B above)
Price Per Lot:	\$120,568 - 4,950 sf lots \$157,225 - 6,000 sf lots	Planning Areas:	2-V, Village 2
Price Per Finished Lot:	\$154,284 - 4,950 sf lots	Tentative Tract:	No. 13880
	\$194,272 - 6,000 sf lots	Purchase and Sale Agreement Date:	December 23, 1999
TRANSACTION NO.	\overline{I}	Decorded Date:	Tuly 5 2000
Location:	S/S of Camino La Padriza, east of Welcome Center	NAMIOU DAIO	7 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2
Planning Areas:	2-B, Village 2	Document No.:	7300006
Tentativa Tract	89891 VN	Seller:	Talega Associates LLC
entative react.	NG: 1,000	Buyer:	Standard Pacific Corp.
Purchase and Sale Agreement Date:	June 24, 1999	Size:	15.5 net acres
Recorded Date:	December 30, 1999	No. of Lots:	61 (conditioned as per Purchase and Sale Agreement)
Document No.:	9986064RF	Lot Size:	6,300 sflots
Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Segurano Unified School District Report M. 18, 8 condities Inc.	omplete Appreisal in 90-2 Page 36	Summary Appraisal Report - Complete Appraisal Community Facilities Destrict No. 90-2 (Talega Project) Signification District (Cappraised) Hill & Associates Inc. Report Will & Associates Inc.	Complete Appraisal 1 No. 90-2 1 Starict Page 37

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Location:

2-M, Village 2 Planning Areas:

No. 15953

December 22, 1999 Agreement Date:

May 2, 2000 Recorded Date:

NEC Camino La Padriza and Christiantos Road

2-0, Village 2

Planning Areas: Tentative Tract:

Location:

No. 13898

Catellus Residential Group, Inc. Buyer

14.4 net acres

3,500 sf lots

\$7,336,310

Bluc-top Condition of Property: \$86,310 Price Per Lot:

252 apartments (maximum density)

10.0 acres

Mass-graded \$11,400,000

Condition of Property:

Purchase Price:

No. of Lots:

\$45,238

Price Per Lot:

X/A

Price Per Finished Lot:

Talega Associates LLC BRE Properties, Inc.

August 8, 2000

Recorded Date:

N/A

Document No.:

Seiler: Buyer: Size:

June 27, 2000

Purchase and Sale Agreement Date:

At junction of Puerta Del Sol and Calle Alicante Location:

BP-2A (portion), Business Park Planning Areas:

Lot 4 of Tract No. 15917 Lot/Tract:

Purchase and Sale Agreement Date:

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (diagog Prajeel) Capitrano Unified School District Brice W. Hall & Associates, Inc. May 4, 2000

Page 38

\$10,000,000

Purchase Price:

\$163,934 Blue-top

Price Per Lot:

Condition of Property:

\$346,759

Price Per Finished Lot:

TRANSACTION NO. 9

N/E side of loop of Camino La Pedriza

Tentative Tract:

Purchase and Sale

19980873741 Document No.:

Talega Associates LLC Seller:

Size:

85 (conditioned as per Purchase and Sale Agreement) No. of Lots:

Lot Size:

Purchase Price:

Price Per Finished Lot: \$134,691

TRANSACTION NO. 11

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

650

Recorded Date:	December 19, 2000	Purchase Price:	\$27,000,000
Document No.:	20000706408	Condition of Property:	Mass-graded
Selter:	Talega Associates LLC	Price Per Lot:	\$91,525
Buyer:	Pacific Packaging Machinery Co., Inc.	Price Per Finished Lot:	N/A
Size:	2.6 gross acres; 1.88 net acre	TRANSACTION NO. 13	
No. of Lots:	1	l ocation:	E. Retween Avenida Vista Hermosa and Calle Alicante
Purchase Price:	\$790,000	Dlanning Areas:	BD-1 (nortion) Business Dark
Condition of Property:	Mass-grad ed	rialining Areas.	Dr. I (Pottion), Dualiness 1 ms.
Price Per SF:	\$9.6\$	LOU HANG	101100: 1 did t 01 1100 1100: 1441 did 1011
		Purchase and Sale Agreement Date:	March 22, 2000
TRANSACTION NO. 12	12	Recorded Date:	December 12, 2000
Location:	S/S of Camino La Padriza, north of Avenida Pico		A NA
Planning Areas:	2-C. Village 2	Decument No.:	N/A
	***************************************	Seller:	Talega Associates LLC
lentative I ract:	No. 15921	Buyer:	Burke-Talega LLC
Purchase and Salc Agreement Date:	July 9, 1999	Size:	13.78 net acres
Recorded Date:	February 8, 2000	No. of Lots:	ю
Document No.:	9976065RF	Purchase Price:	\$5,702,440
Seller:	Talega Associates LLC	Condition of Property:	Mass-graded
Buyer:	Talega Viilage LLC	Price Per SF:	\$9.50
Size:	49.8 net acres	Price Per Finished Lot:	N/A
No. of Lots:	295		
Lot Size:	Varies		

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Tagles Project) Capistrano Unified School District Brace W Half & Associates, Inc.

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Summary Appraisal Report - Complete Appraisal Community Facilities District No 90-2 (Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

Buyer: Catellus Realty Group	Size: 8.0 net acres	No. of Lots: 47 (3,500 sf lots)	Purchase Price: \$4,885,000	Condition of Property: Mass-graded	Price Per Lot: \$103,936	Price Per Finished Lot: \$134,449		TRANSACTION NO. 16	Location: N/S of Camino de la Podriza; W/S Calle Vista del Sol	Planning Areas: 2-S, Village 2	Lot/Tract: Lots 17 thru 46 of TTM 15955; Lots 24 thru 33, 59 thru 75 of TTM 14224	Purchase Sale/ Agreement Date: Octobor 30, 2000	Recorded Date: December 20, 2000	Document No.: 2000691936	Seller: Talega Valley Associates LLC	Buyer: BHC Residential LLC	Size: 16.5 acres	No. of Lots: 58 (55' x 100' typical lot size)	Purchasc Price: \$8,500,000	Condition of Property: Mass-graded	Price Per Lot: \$146,551	shed Lot:	
0.14	S/S of Puerto Del Sol at Avenida Vista Hermosa	BP-2A (portion), Business Park	Lot 2 of Tract No. 15917 and Lots 3, 4 and C of Tract No. 14227		April 11, 2000	September 28, 2000	2000516212	Talega Associates LLC	Taico Properties, Inc.	4.26 acres	4	\$1,699,775	y: Mass-graded	\$9.00	\$1 0	ENC Commiss do la Badrina at Carta Mar Viets	ES CALINIO DE 14 FEUITZA AL COITE MAIA VISTA	2-P, Village 2	Lots I through 14 of 1ract No. 159541	July 21, 2000	2000383118	Talega Associates LLC	
TRANSACTION NO. 14	Location:	Planning Areas:	Tentative Tract:	Purchase and Sale	Agreement Date:	Recorded Date:	Document No.:	Seller:	Buyer:	Size:	No. of Lots:	Purchase Price:	Condition of Property:	Price Per SF:	TRANSACTION NO. 15	I continue	Location:	Planning Areas:	Tract:	Recorded Date:	Document No.:	Seller:	

Location:	N/S of Camino de la Pedriza; E/O Calle Vista del Sol	Document No.:	N/A
Planning Areas:	2-R, Village 2	Seller:	Talega Valley Associates LLC
Lot/Tract:	Lots 1 to 16, C, D, I and portion of H of TTM 15955; Lots 1-23, 34, 36-58 C-E, O-S and portions of Lots B, I, L and N of TTM 14224	Buyer:	Standard Pacific Corporation
7.100		Size:	24.3 acres
Purchase Sale/ Agreement Date:	October 30, 2000	No. of Lots:	107 (5000 sf typical lot size)
Recorded Date:	December 26, 2000	Purchase Price:	\$13,496,000
Document No.:	N/A	Condition of Property:	Mass-graded
Seller:	Talega Valley Associates LLC	Price Per Lot:	\$126,131
Buyer:	William Lyon Homes, Inc.	Price Per Finished Lot:	\$160,143
Size:	21.6 acres	ON NOITOWNAUT	•
No. of Lots:	61 (72' x 105' typical lot size)	I ocation:	S.S. of Puerta del Sol. F/O Avenida Vista Hermosa
Purchase Price:	\$13,850,000	Dlaming Areas.	DD 1 /nordion) Business Dark
Condition of Property:	Mass-graded	Ted Theres.	To the Country of Manager and Total Country of the
Price Per Lot:	\$219,841	DOVI HACE.	LOUD OF TRACE 1922/
Price Per Finished Lot:	\$253,880	Purchase Sale/ Agreement Date;	September 8, 2000
TRANSACTION NO. 18	881	Recorded Date:	December 27, 2000
Location:	N/S of Camino de la Pedriza; N/O Via Arnor	Document No.:	Tolon Vollan Annaidean I I C
Planning Areas:	2-Q, Village 2	Selici.	Melione Bernellin
Lot/Tract:	Lots 48-114, C to G, I to O, R to T of TTM 15954; Lots l -40 , B to D, and F to H of TTM 14226	Buyer: Size:	Makcha Propenies 5.37 acres
Purchase Sale/ Agreement Date:	November 15, 2000	No. of Lots:	
Summary Appraisal Report - Complete Appraisal Community Facilities District No 90-2 (Palego Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.	mplate Appraisal n 90.2 Page 44	Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Tolega Project) Capstrono Unified School District Brace W. Hull & Associates, Inc.	mplete Appraisal : 90 2 ici

January 9, 2001

Recorded Date:

TRANSACTION NO. 17

TION NO. 21	
51	

W/O of Avenida Talega Location:

3-G, Village 3 Planning Areas: January 9, 2001 Recorded Date:

Document No.:

Talega Valley Associates LLC

Citation Homes

38 (5000 sf minimum lot size)

\$6,500,000 Purchase Price: Mass-graded

\$171,053 Price Per Lot:

Talega Valley Associates LLC

0.93 acres

Size:

Ewing

Buyer Seller:

September 8, 2000 August 2000

> Recorded Date: Document No.:

Purchase Sale/ Agreement Date:

N/A

Price Per Finished Lot: \$220,000

TRANSACTION NO. 22

Adjacent to golf course and southerly terminus of Avenida Talega Town Center A March 2002 Planning Areas: Recorded Date: Location:

Mass-graded

Condition of Property:

\$10.12

Price/SF:

\$410,000

Purchase Price:

No. of Lots:

N/A

Document No.:

Talega Valley Associates LLC Seller:

Standard Pacific Housing Corporations Buyer:

15.6 acres Size:

Sumuary Approteal Report - Complete Approteal Community Facilities District No. 90-2 (Talkage Projeat - Captran Chiled School District Captrano United School District Brace W. Hull & Associates, Inc.

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Summary Appraisal Report – Complete Apprelsal
Community Facilities District No. 90-2
(Talgas Project)
Capitrae Unified School District
Review Hull & Associates, Inc.

N/A

S/S of Camino La Pedriza; W/S Calle Vista del Sol

Condition of Property: Mass-graded

\$10.25

Price/SF:

TRANSACTION NO. 20

\$2,311,700

Purchase Price:

BP-2A (portion), Business Park

Planning Areas:

Location:

Lot/Tract:

Lot 3 of Tract 15917

Seller:

Buyer:

6.6 acres Size: No. of Lots:

Condition of Property:

654

9
Page

Purchase Sale/ Agreement Date: September 8, 2001	Recorded Date: January 16, 2002	Seller: Talega Valley Associates LLC	Buyer: BRE	Size: 4.7 acres	No. of Units: 110	Purchase Price: \$25,060,000	Condition of Property: Mass-graded	Price/Unit: \$46,000		ON NO. 23	Planning Areas: 3-A, Village 3	Purchase Sale/ Agreement Date: June 18, 2002	Recorded Date: Scheduled October 2002	Document No.: N/A	Seller: Talega Valley Associates LLC	Buyer: Lennar Homes	Size: 12.9 acres	No. of Lots: 144 (attached product)	Purchase Price: \$16,239,465	Condition of Property: Mass-graded per sales agreement		Summary, Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Tabley Project) Capsuran Unified School District Bruce W. Hall & Associates, Inc.
						ılega															3	Page 48
170	\$8,869,000	Mass-graded	343,000 \$00.17£		13	Adjacent to gold course and Avenida Talega	Town Center B	March 20, 2002	N/A	Talega Valley Associates LLC	Standard Pacific Housing Corporations	18.1 acres	132	89,879,978	Mass-graded	\$50,300	\$129,214		.24	Avenida Pico/Avenida Talega	BP-9 (portion), Business Park	Complete Appraisal No. 90-2 rrica
No. of Lots:	Furchase Price:	Condition of Property:	Fince Per Lot:	rnce ret rimsned Lot.	TRANSACTION NO. 23	Location:	Planning Areas:	Recorded Date:	Document No.:	Seller:	Buyer:	Size:	No. of Lots:	Purchase Price:	Condition of Property:	Price Per Lot:	Price Per Finished Lot:		TRANSACTION NO. 24	Location:	Planning Areas:	Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc

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age
а.

Price Per Lot:	\$112,274	Seller:	Talega Valley Associates LLC
Price Per Finished Lot:	\$138,774	Buyer:	Brookfield
TRANSACTION NO. 26	93	Size:	15.6 acres
Danning Arms.	1.B Village 3	No. of Lots:	78
rianning Aucas.	יבי, יוופּצָר י	Purchase Price:	\$12,860,000
Agreement Date:	June 18,2002	Condition of Property:	Blue Top per sales agreement
Recorded Date:	Scheduled December 2002	Price Per Lot:	\$164,872
Document No.:	N/A	Price Per Finished Lot:	\$190,372
Seller:	Talega Valley Associates LLC	or ON NOTION AND 10	9
Buyer:	Standard Pacific	I KANSACTION NO.	2 D 15:10-20-2
Size:	13.2 acres	rlaining Areas.	J-D, village J
No. of Lots:	91 (3,400 sf lots)	Purchase Salc/ Agreement Date:	June 26, 2002
Purchase Price:	\$10,150,000	Recorded Date:	Scheduled December 2002
Condition of Property:	Mass-graded per sales agreement	Document No.:	N/A
Price Per Lot:	111,538	Seller:	Talega Valley Associates LLC
Price Per Finished Lot:	\$138,038	Buyer:	Standard Pacific
TRANSACTION NO. 27	22	Size:	16.5 acres
Diamina Areac	2. Villane 1	No. of Lots:	94
Lidhling Arcab.		Purchase Price:	\$12,810,000
Furchase Sales Agreement Date:	June 18, 2002	Condition of Property:	Blue top per sales agreement
Recorded Date:	Scheduled December 2002	Price Per Lot:	\$136,277
Document No.:	N/A	Price Per Finished Lot:	\$166,277
Summary Appraisal Raport - Complete Appraisal Community Facilities District No 90.2 (Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.	mplete Appraisal 1 90.2 Page 50	Sumnary Appealsal Report – Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Capistrano Unified School District Brace W. Hall & Associates, Inc.	implete Appraisal o. 90-2 ica

\$22,211,426	Blue top per sales agreement	\$292, 255 \$322,255	omplete Appraisal 6. 90-2 rici
Purchase Price:	Condition of Property:	Price Per Lot: Price Per Finished Lot:	Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2 (Talego Project) Capistrano Unifled School District Bruce W. Hull & Associates, Inc.

92

No. of Lots:

Talega Valley Associates LLC

Standard Pacific

Seller: Buyer.

Sizc:

18.2 acres

Scheduled December 2002

Recorded Date:

N/A

Document No.:

June 26, 2002

Purchase Sale/ Agreement Date:

3-E, Village 3

Planning Areas:

TRANSACTION NO. 29

Blue top per sales agreement

Condition of Property:

\$183,425

Price Per Lot:

Price Per Finished Lot: \$212,425

\$13,390,000

Purchase Price:

73

No. of Lots:

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Talega Valley Associates LLC

N/A

Document No.:

Seller: Buyer:

Recorded Date:

Lyon Homes

23.5 acres

Size:

Summary Appraisal Report – Complete Apraisal Community Facilities District No. 90-2 (Talega Project Capacine Unified School District Brace W. Hall & Associates, Inc.

Scheduled December 2002

June 18, 2002

Purchase Sale/ Agreement Date:

3-F, Village 3

Planning Areas:

TRANSACTION NO. 30

SUBJECT PROJECT DESCRIPTION

This section will present a bricf description of the Talega Project as well as Villages 1 and 2 (sold to merchant builders).

Location:

of Avenida Pico and east of Avenida La Pata. The entire Talega Project contains 3,510 acres, of which 1,906 acres are within the unincorporated area of Orange County, and the balance of 1,604 acres are within the jurisdiction The Talega Project is located in the southern portion of Orange County, north of the City of San Clemente.

Please refer to the Ad Valorem/Special Tax Schedule located in the Addenda Property Taxes:

of this report.

Picase refer to the Amended and Restated Rate and Method of Apportionment of Special Tax CFD No. 90-02 located in the Addenda of this

report.

Legal Description:

The subject project is irregular in shape and contains approximately 3,510 Size/Shape:

Zoning:

Specific Plan, which was adopted by the City of San Clemente in August of units as well as a golf course, business uses, and open spaces. A specific plan amendment was filed (SPA 98-05) in September of 1998 which establishes a open space. As discussed earlier in this report, a specific plan amendment is The subject project is under two specific plans. The first is the Talega 1988. It was amended in July of 1992. This is the document that is vested by the Development Agreement executed in 1998. There are a total of 2,265 100-acre minimum for business park, allows for 56 acres of additional development area, and would allow for the golf course to be credited towards

the Orange County Planning Commission approved the fifth amendment to The Rolling Hills Feature Plan was approved in September of 1989 by the units, a golf course, and commercial and business park uses. In July 2000, the Feature Plan, which was submitted to eliminate health facilities land use designation and expand two medium-high density residential areas. The golf Orange County Board of Supervisors. This plan allows for 2,700 residential course was redesigned for drainage purposes. As mentioned above, there are two specific plans that have been approved. In addition there is the following. Entitlements:

Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2

(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

Development agreements executed between the City of San Clemente, the County of Orange, and Talega Associates, LLC. A number of tract maps that been approved. A list of these is located in the section, Chronological History of the Talega Project. An area plan (No. 98-82) on 713 acres approved by the City of San Clemente.

Topography:

opposite side of the central valley. This ridge extends in a southwest to northeasterly direction and elevations exceed 850 feet. This ridgeline The Talcga Project is a combination of valleys, ridges, hills, and graded areas. Grading and development have occurred in the southern portions of the site (Villages 1 and 2). Elevations on site range from 910 feet in the northern portion to 300 feet in the western portion. Much of the northern portion of the site is occupied by a large ridgeline of which the highest elevations occur offsite. South of this ridge, in the central portion of the site, is Talega's long central valley, which like the ridgeline, trends in a southwest to northeast direction. At the floor of the valley is the largest drainage course onsite, Segunda Deschecha Canada. A second major ridgeline occurs on the terminates at its southwestern end of a large hill referred to as Nob Hill. South of this ridgeline is another internal valley, trending in the same West of this series of ridges and valleys, the terrain is hilly, but less steep. Several landslides exist in the western portion. Toward the western boundary, clevations increase and the terrain ascends toward the primary ridgeline to the west on Forcster Ranch.

watershed boundary, ridges and valleys are generally steeper and trend in the opposite direction. These steep canyons and smaller drainage courses, which lead to Cristianitos Creek, are the site of oak woodland-mixed chaparral-The topography in the eastern portion of the property is different from the rest of Talega. The eastern third is divided from the balance of Talcga by a major watershed boundary where the two ridgelines meet. To the west of this coastal sagebrush. Reference is made to an EIR5 that has detailed the soils and geology of the

Soils:

^{&#}x27; falega Valley Environmental Impact Report prepared by EDAW, Inc. August 26, 1998.

Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2

⁽Taloga Project) Capistrano Unified School District Bruce W. Hull & Associatus, Inc.

The report has addressed several different areas of the project and has classified them as follows. Santiago Formation - This area is located in the northeasterly half of the property and the soils are classified as Marine sandstone. Topanga Formation - This is located in the north central and the soils are classified as Marine sandstone.

which includes property consisting of sandy to clay light soils. Boulders as large as eight feet were found along a buried oil pipeline. This is located in San Onofre Breccia - The soils are classified as Marine angular breccia, the central portion of the property.

Monterey Formation - Soils are Marine siltstone and shale. Moderate to high expansion potential. Capistrano Formation - These soils are Marine siltstone, clay and sandy siltstone with local fine to medium sandstone.

ranging in area from .25 acre to 70 acres, and in depth from 5 to 10 feet up to Ancient Landslide Debris - Distributed throughout the property in sizes as much as one 100 feet. Recent Landslide Debris - Blocks of underlying hedrock materials, plus soils materials, which are within the area since the movement began. Alluvium - This is located in the valley bottoms and consists of several hundred acres. Soils are sandy silt to silty clay.

Colluvium and Slopewash - These soils are silty clay, sandy clay in the western half of the property. Materials are in depths of one to five feet and liquification can occur when saturated. Artificial Fill - This is placed without the benefit of engineering and was ypically placed for retention of water stock and support for roadways.

Earthquake

The Cristianitos Fault crosses the subject property. According to the original EIR another fault, the Forster Fault, diverges from the Cristianitos Fault within the property in the southwestern portion of the property, extending westerly, then northerly, to rejoin the Cristianitos Fault north of the subject property.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

Capistrano Unified School District Bruce W. Hull & Associates, Inc. (Talega Project)

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The EIR summarizes this as follows.

"Thus, the Cristianitos Fault and related faults which branch from it can be considered not active and are not considered capable faults under N.R.C. (Nuclear Regulator Commission⁵) guidelines. They may be potentially active under criteria set forth in Alquist-Priolo special studies zones. No requirement for trenching or considerations for structural setbacks are necessary under these criteria. The need for structural setback or remedial grading along the fault zone due to the presence of a weak rock is a separate matter and must be considered during development of the property on a site specific basis. This also applies to numerous other minor faults which are present on the

Environmental:

The project as envisioned by the current Talega Business Plan involved receiving approvals from several government agencies in addition to the County of Orange and the City of San Clemente. These included the following:

- for alterations to the Upper Segunda Deshecha Canada and tributary to had previously received an agreement (No. V-88-663) to permit certain alterations to wetlands and riparian areas associated with the previously California Department of Fish and Game. This agency required a permit Cristianitos Creek. This is referred to as a 1603 Agreement. The project mentioned waterways. This agreement was extended on March 28, 2002.
- for development of a portion of the property (Villages 3, 4, 5 and 6). In site drainage to allow construction of the golf course in Village II. Due to the number of acres of the streambed to be altered in the remainder of the U.S. Army Corps of Engineers 404 Permit. A 404 Permit was required March 1998, a new Nationwide Permit was issued for a portion of the onproject, the Corps is requiring a new individual project permit. Talega Associates made application to the corps for this 404 Permit in July 1998.

The Corps distributed the 404 Permit application for public review and comment in February and November 2000. The Corps focused on alternative project designs that would avoid additional alkali wetlands Village III, and in areas where the golf course is adjacent to the upper Segunda Deshecha drainage. As a result, Talega Associates has revised he design of the golf course, Village 3 and portions of the Village Center areas in the vicinity of Avenida Vista Hermosa, the Village Center,

San Onofre Nuclear Plant is located 6+ miles southwest of the subject.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

the elimination of approximately 46 homes, the elimination of 10 acres of This redesign necessitates the relocation of required storm run off detention facilities, Business Park in the Village Center and the construction of three bridges to climinate filling of the Segunda Deshecha drainage. On March 8, 2002 the Corps issued the 404 Permit.

660

The USFW has determined that the relocation of the Bordiaca plants is obtained a biological opinion from the U.S. Department of Fish and population of Threadleaved Brodiaea, a federally protected plant, and to acceptable and that the project will not adversely modify critical habitat In the issuance of the 404 Permit the U.S. Army Corps of Engineers Wildlife ("USFW") regarding the impact of the Talega Project on a small areas designated as critical habitat for the coastal California Gnatcatcher. for the Gnatcatcher.

- within the footprint of the EIR would have resulted in the loss of Associates is preparing an application for a final "4(d)" hatiata loss permit obtain authorization for the loss of 32 acres of coastal sagebrush in valley Development Feature Plan Amendment, the development area approximately 136.14 acres of coastal sagebrush if the entire Talega Valley Development, as depicted in the EIR for the project, had been developed. Approximately 104.12 acres of coastal sagebrush was removed through the issuance of three "4(d)" habitat loss permits. This sagebrush in Village 3 and Avenida Talega (7t acres). A concurrence letter is anticipated from the USFW by the end of Octoher 2002. Talega Department of Fish and Wildlife is involved in both the coastal sagebrush and coastal California gnatcatcher. The coastal California gnateatcher was observed on site. According to a study for the Talega area was located in Villages 1 and 2, the Village Center, and Business Park. A verbal agreement has been reached with USFN for coastal portions of Villages 5 and 6. U.S.
- jointly administered by the City of San Clemente and the County of National Community Conservation Plan (NCCP) is a program that will be Orange. The NCCP is a program to ensure the long-term survival of the gnateatcher and other sensitive animal species.

Talega Associates joined the NCCP landowners in September of 1997 and will contribute monies to the Trust to assist in the reserve. The purpose of the NCCP is to provide regional or area wide protection and perpetuation of natural wildlife diversity while allowing The Talega Project is within the Southern Subregion of the Orange funding in planning and management of the Southern Subregion NCCP compatible and appropriate development and growth. Assembly Bill No. County NCCP.

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Act (AFESA) is costly and historically ineffective as a means of 2172 was signed into law September 1991. It is referred to as the NCCP Act and was designed in recognition of the fact that individual species protection under the Endangered Species Act and the Federal Endangered

a multi-habitat based NCCP/Habitat Conscrvation program for the Consequently, the County of Orange in conjunction with state and federal agencies, local jurisdictions, utility companies, the Transportation Corridor Agencies, and private landowners is in the process of preparing Southern Subregion to ensure the long term survival of the gnatcatcher and other coastal sage scrub dependent plant and animal species.

sage in portions of Villages 3 and 5. To date, the U.S. Fish & Wildlife loss permit to obtain authorization for the loss of 32.4 acres of coastal Talega Associates has submitted an application for a final "4(d)" habitat has granted three 4(d) Permits including removal of the only occupied coastal sage scrub on Talega.

A summary of the environmental issues is listed as follows:

- Army Corps of Engineers (Corps) Section 404 Permit for impacts to waters of the U.S. and California Department of Fish and Game (CDFG) The 3,500-acre Talega Development Project obtained its original U.S. Section 1603 Streambed Alteration Agreement in the mid-1980s.
- Over \$1 million was expended installing two wetlands mitigation sites pursuant to the original Permit and Agreement. In total, 8.80 acres in two wetland sites have been in place for over five years.
- The U.S. Army Corps of Engineers had issued a 404 Permit for Villages 3, 4, 5 and 6 on March 28, 2002.
- Talega Associates, LLC is currently working with the U.S. Fish and Wildlife Service (USFWS) and CDFG to process a fourth 4(d) Permit for Talega Associates, LLC has contributed \$250,000 and homeowners will additional take of coastal sage scrub within near term planning areas. pay an annual homeowner's assessment of \$25.00 per residential unit (collected through Homeowners Association fee).
- Approximately 32 acres of coastal sage scrub remain within the Talega Project. An application 4("d") will be submitted when development occurs in this area (Villages 5 and 6).

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Over two-thirds of the Project is open space including 1,957 acres of natural open space that will be contributed to the contemplated South Orange County Natural Communities Conservation Plan (NCCP)

Transportation:

for the planning, design, and implementation of the Foothill Corridor, in addition to other toll roads in the County of Orange. The Foothill Corridor is 27.7-mile toll road extending from Tustin (and the Eastern Corridor) to Interstate 5 southwest of the subject property. While no final alignment has been approved, the preference by the property owners, City, and other agencies appears to be Fareast Alignment (formerly "CP"), which has the future toll road extending along the eastern boundary of the subject property with an interchange at Avenida Pico. Other alignments would have an adverse impact on the subject property including bisecting developments under construction. An Environmental Impact Report is being prepared on the project. The toll road is anticipated to begin construction in 2005 with completion in 2007. The roadway would be financed by the sale of toll Foothill Transportation Corridor ATCA is an agency that is responsible revenue bonds. Fccs are based on type of use.

Growth Policy-San Clemente:

The Residential Development Evaluation Board ("RDEB") was a process for a growth mechanism adopted by the City. The City's Development Code (Chapter 15.44) established the standards associated with the program. As a result, the City allocates building permits for 500 units a year. The decision for award is based on a point system for each project. The most recent RDEB awards were on July 3, 2002, which approved 483 units for Village 3.

Miscellancous:

Regulatory Commission (prior to SCE operating the plant) that SONGS did The San Onofre Nuclear Generating Station ("SONGS") is approximately 6 miles from the project. Southern California Edison ("SCE") has operated the and commercial customers. SCE has primary and back-up safety features if an accident occurs. SCE was required to demonstrate to the United States SONGS since January of 1968. This plant generates electricity for residential not pose an undue risk to public health and safety

project. This test site conducts tests of lasers, fossil fuel technologies, and The TRW Capistrano Test Site is located approximately 1 mile from the space communication systems. The United States Marine Corps, Camp Pendleton ("Camp Pendleton") is located southeast of the project. This is an active year round training facility that utilizes aircraft, explosives, and troops in its training operations.

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MERCHANT BUILDERS/INDUSTRIAL/APARTMENTS PLANNING AREA DESCRIPTIONS

Residential Group acquired the site on January 6, 1999. The project is built-out with 68 completed PLANNING AREA 1-D/E is located in Village 1. It is a 14.9-acre site that has been developed to 68 units with a typical lot size of 5,000 square feet. The planning area has been designated as "Terra Linda" the sales prices for the development ranging from \$383,019 to \$639,990. homes. PLANNING AREA 1-J is located in Village 1. It is an 11.9-acre site that has been developed to 47 units each on a typical sized 6,300 square foot lot. This planning area has been designated as "Pacifica" with sales prices ranging from \$569,750to \$917,000. Standard Pacific acquired the planning area in December 1998. The project is build out with 47 completed homes and sold to individual homeowners.

developed to 80 single-family units each on a typical sized 5,500 square foot lot. The planning area is designated as "San Rafael" with sales prices ranging in price from \$449,000 to \$879,990. Catellus PLANNING AREA 1-F/G is also located in Village 1 and consists of 18.1 acres. This site is being Residential Group purchased the site in December 1998. The project has 80 completed homes and sold to individual homeowners.

The sales price ranges from \$397,000to \$751,600. Standard Pacific purchased the site in December PLANNING AREA 1-H/I is located in Village I and consists of 23.7 acres. This planning area has seen designated as "Monterey" with 108 single-family detached units on 5,000 square foot lots. 998. The project has been sold out (108 recorded transactions). PI.ANNING AREA 2-B is a high-end residential development referred to as "Vizcaya". This 14-lot development is located in Village 2 with all 14 houses that are priced from \$900,000 to \$1,350,050. The project is sold out.

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attached homes ranging in price from \$273,220 to \$496,830. The project is referred to as "Carmel at PLANNING AREA 2-F is a 12.5-acre site located in Village 2. This site is developed to 86 Talega". This site was acquired by Lennar Homes in December 1998. The project is sold out.

homes is designated as "Scaside at Talega" on typical 4,000 square foot lots. The sales pricing is PLANNING AREA 2-G is a 24.1-acre site in Village 2. This site of 140 single-family detached from \$348,080 to \$512,651. The site was purchased by Shea Homes in December 1998. The project is sold out. PLANNING AREA 2-H is also located in Village 2. This development, known as "Solana", is consists of 16.1 acres and was acquired by William Lyon Homes in December 1998. The project is being developed to 120 attached units with base prices ranging from \$247,779 to \$443,490. The site

PLANNING AREA 2-I is an 8.2-acre site designated for 105 townhomes in Phase II-A and was acquired by Lennar Homes in December 1998. This site is designated as "Trinidad" with an attached product ranging in price from \$191,288 to \$304,000. The project is sold out.

2000 and July 21, 200. The site consists of 22.4 acres and is being developed with units with the PLANNING AREAS 2-M and P was purchased by Catellus (BHC acquired by Catellus) on May 2, prices ranging from \$369,990 to \$543,000 on 3,500 sf lots. There are 85 recorded transactions and 15 completed homes, and 32 homes under construction.

Summit" ranging in size from 3,542 to 4,188 square feet and are priced from \$675,000 to PLANNING AREA 2-V was acquired by Standard Pacific Housing. The product "Pacifica \$1,073,462. This planning area is completed with the 61 homes lots on 15.5 acres with a typical lot size of 6,300 square feet. There are two homes remaining (both under contract) and scheduled to close in the near future. PLANNING AREA 2-Q was acquired by Standard Pacific Corporation on January 9, 2001. The planning area consists of 24.3 acres of land on which there is 107 lots. The development, "Miraleste"

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\$564,000 to \$750,000. There are 33 recorded transactions to homeowners. Remaining there are 20 has single-family homes ranging in size from 2,669 to 3218 square feet and ranging in price from completed homes, 2 lots used for parking, and 43 homes under construction.

area consists of 21.6 acres on which there is a tentative map approval for 63 lots. Typical lot size is prices range from \$860,000 to 915,000. There are 6 recorded transactions to homeowners. There are 7,560 square feet. The single-family product ranges in size from 4,157 to 4,686 square feet and PLANNING AREA 2-R was acquired by Lyon Homes, Inc. on December 26, 2000. This planning 11 homes completed, 3 lots used for parking, and 28 homes under construction.

area consists of 16.5 acres on which there is approval for 58 lots. The development, Cantabria, is PLANNING AREA 2-S was acquired by Catellus (BHC) on December 20, 2000. The planning currently being marketed.

38 finished lots (5,000 st) that are proposed for homes ranging in size from 2,517 to 2,911 square being graded and a model home development is under construction. The development will consist of PLANNING AREA 3-G was acquired by Citation Homes January 3, 2002. The site is currently feet. There has been strong interest expressed in this project (300+ parties on the list). TOWN CENTER A AND B was acquired by Standard Pacific in March 2002. The area consists of 302 units on 33.7 acres. The site is currently being graded and units are anticipated to range in size from 1,156 to 1,881 square feet and range in price from \$230,000 to \$292,500. PLANNING AREAS 2-O and BP-9 were acquired by BRE properties in August 8, 2000 and January 16, 2002 respectively. Apartments are under construction with 252 units on Planning Area 2.O and 110 units planned for BP-9.

Talega development. Talgea Associates conveyed this parcel to the City of San Clemente who PLANNING AREA 2-N is an affordable housing project, which was a condition of development for

Reduced to 61 lots.

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transferred title to Jamboree Associates, who is under construction on the 186-unit apartment project. In addition to transforming the site to the City without consideration, Talega contributed \$1,100,000 for fees required for development.

BUSINESS PARK (a portion of BP-1) is a development consisting of four industrial buildings and a recently constructed a Kindercare center. This involves three APNs, of which the County Assessor has valued two. APN 688-291-117 (lot 17) is a 1.474-acre site that has been improved with a 9,966 square fool Kindercare center. The construction is new, built in 2002, and of good quality concrete tilt up construction. The Kindercare site (APN 688-291-117) will be valued in Section I of the appraisal report since the County Assessor has not assigned a value to the improvements.

BUSINESS PARK (BP-2A) is a development consisting of 11 industrial buildings that have recently been constructed. These buildings, which range in size from 3,641 to 6,575 square feet have all been sold. The buildings are of good quality concrete tilt-up design, solar bronze glass windows, fully sprinkled, 400 amp power minimum, 16' warchouse clearance height, grade level parking, and office area (which varies per building). These are located on APNs 688-291-04, 05, 06, 07 and 010. All of the buildings have been sold and are scheduled to close escrow in mid Soptember. These APNs will be valued in Section III since they represent recent transactions of the entire project.

BUSINESS PARK (BP-2A) is a site that was acquired by Ewing Irrigation Products in September 2000 and is currently undeveloped. This is located on APN 688-201-011. The site consists of .953 acres and is currently vacant. This will be valued in Section 1 of the report.

BUSINESS PARK (BP-4A) was acquired in April 2002 and is located in Phase II of the Business Park. The site consists of two lots and totals 4.3 acres.

BUSINESS PARK (BP-7) is located at the entrance to Talega and is being developed with another lot (not located in the CFD). This site is being graded and wad acquired by Calibar on June 18, 2002. This consists of 3.28 acres.

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HIGHEST AND BEST USE ANALYSIS

The highest and best use analysis is a basic concept in real estate valuation represents the underlying premise (i.e. land use) upon which the estimate of value is based. In this report the highest and best use is defined as:

"That reasonable and probable use that supports the highest present value, as defined, as of the effective date of the appraisal.

Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value. "*

Proper application of this analysis requires the subject property to first be considered as if vacant in order to identify the "ideal" improvements in terms of use, size and timing of development. Secondly, the existing improvements (if any) are compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a more productive or ideal use

AS VACANT

In the following analysis I have considered the site's probable use, or those uses which are physically possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible use, or those uses which generate a positive return on investment; and the maximally productive use, or those probable permissible uses which combine to give the owner of the land the highest net return on value in the foreseeable finure.

Physically Possible Uses

The subject property is a large, irregular parcel, which contains 3,510 acres. The site is located in the southern portion of Orange County and is within the jurisdictions of both the City of San Clemente

^aReal Estate Appraisal Terminology, Revised Edition, 1981

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well as portions of the site being graded. Elevations on the site range from 210 to 910 feet. A and the County of Orange. The majority of the area consists of valleys, ridges, and grasslands as portion of the property (referred to as Villages 1 and 2) has been developed to residential housing.

analysis that was prepared by T & B Consultants indicate that approximately 289 acres of the site are The Segunda Deshecha drainage course crosses the site in a northeasterly to southwesterly direction, with several smaller tributary drainage courses crossing the primary drainage course. A slope relatively flat containing less than 15% slope gradient. Approximately 105 acres of the site contain slopes between 15% and 25%, and 258 acres contain slopes ranging between 25% and 50%. Fiftytwo acres have slopes in excess of 50%.

The soils have been described in this appraisal report and vary throughout the site.

The Final EIR as well as the addendums (first, second and third) addresses the mitigation measures for development of the property. The Final Environmental Impact Report (No. 482) addressed the impacts associated with slope stability, problematic soil conditions, seismicity, groundwater, and rippability of the soils for development. The addendums to the EIR conclude that the recommendations that were made in the Final EIR, if adopted, would reduce the impacts to less than significant were still applicable. These mitigation measures are summarized below.

- Development of the site shall conform to general recommendations presented in the geotechnical studies (Irvine Soils Engineering, Inc. 1980, 1981 and 1983).
- Specified methods of mitigating potential hazards related to slope stability, problematic soils conditions, seismicity, groundwater, and rippability shall be assessed and recommended by a qualified engineering geologist.
- Prior to approval of a Site Development Permit, the developer shall submit a conceptual grading plan for approval by the County Environmental Management Agency ("EMA").
- Prior to recordation of the final tract map, rough grading plans will be approved and prior to

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- Prior to recordation of the final tract map, rough grading plans will be approved and prior to grading permits issuance, a precise grading plan will be approved.
- Rough grading plans shall include an erosion, siltation, and dust control plan to be approved by
- All slopes shall be designed at 2-horizontal to 1-vertical or flatter except in areas where specific geotechnical studies determine that steeper slopes are feasible.
- Prior to approval of any grading permit, plans shall be submitted by the applicant, which shall include a description of haul routes, access points to the site, and a watering and sweeping program to minimize impacts of haul operations.

that the lands and the mitigation measures cited in the BIR indicated the property is suited for Villages 1, 2A and 2B have been developed to a variety of residential housing products indicating levelopment.

Legality of Use

business park, 13 acres of commercial use, a championship golf course. Villages 3°, 4, 5 and 6 The subject property is within the jurisdiction of the City of San Clemente and the County of Orange. The City of San Clemente has approved a Specific Plan in 1998 and an amendment in July 2001 via Resolution No. 01-76 with the City. The Specific Plan that was amended in July 1992 is 1992 to the original specific plan. Another amendment was recently approved on December 12, vested by the Amended Development Agreement (2002) that had been executed between the City and Talega Associates. The Specific Plan amended allows for 2,689 residential units, a 16.9-acre equire an additional U.S. Army Corps of Engineers 404 Permit, which has been obtained.

on 713.2 acres of the Talega Specific Plan. This was approved by the San Clemente City Council on An Area Plan Land Use for Planning Areas B, C, G, H, and I with portions of D and E was submitted in September of 1998. This Area Plan Land Use document was prepared and submitted March 17, 1999. It is summarized on the following page.

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Absent Planning Arca 3-G

LAND USE	ACRES	MAX. D.U.s
RESIDENTIAL		
"L" Residential Low	120.6	435
"LM" Residential Low Medium ²	81.0	336
"M" Residential Medium	12.2	137
"MH" Residential Medium High	28.1	353
Sabtotal	241.9	1,261
OPEN SPACE/RECREATION		
"GC" Golf Course	160.9	435
"OS" Open Space 13	134.8	
Subtotal	295.7	
PUBLIC FACILITIES		
"P" Parks	31.7	
"ES" Elementary School	19.9	
"L" Private Recreation (Residential Low)	4.7	
Subtotal	56.3	
COMMERCIAL/BUSINESS		
"BP" Business Park	38.3	
"C" Commercial	4.2	
Subtotal	42.5	
Potential Development Areas'	17.5	
Roads	59.3	
TOTALS	713.2	1,261

Includes 13.4 acres and 51 units of an approved tentative tract map, plus an additional 30 units as a result

The Orange County Board of Supervisors approved the Rolling Hills Feature Plan in September of 1989. There have been subsequent amendments, the most recent being in 2000, which eliminated health facilities land and expanded two medium high density residential areas.

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In addition, there have been a number of tract maps approved for the project. These have been reported in the Chronological History section of this report. Based on the legality of use analysis, the types of development for which the subject project can be utilized is considered to be residential, business park, commercial, golf course and open space.

Feasibility of Development

This consideration in the highest and best use analysis is economic in nature.

I have reviewed a Market Absorption Study on the Talega Project, which was prepared by Empire Economics in August 2002. This report was prepared for Capistrano Unified School District and for the issuance of bonds by CFD No. 90-2. Empire Economics summarizes recent/expected development activity in the CFD No. 90-2 market area ("CFD 90-2 MA") as follows:

- "The housing growth in CFD 90-1MA is expected to be 29,860 homes from 2002 to 2020. Most of the housing growth is expected to occur from 2000 to 2010.
- A comparison of capture rates for employment and housing reveal that the capture rate for employment is significantly higher (4.21% vs. 2.64%) and so the CFD 9-1MA is considered to have a comparative advantage as an employment center rather than a housing center."

The Empire Economic report's overview of competitiveness of housing prices for the CFD No. 90-2 housing market area is stated below.

Consequently, the SB-West and RC-West housing markets experienced increasing levels of "Therefore, the OC-Coastal and OC-Inland markets have recently experienced strong recoveries, as reflected by their prices/value ratios attaining new record levels; however, the scarcity of new housing and the higher prices have resulted in a stable level of sales. So, some of the demand has shifted to western Riverside County and San Bernardino. sales for new homes in the recent years. However, their prices/value ratios have been increasing at a slower pace than in Orange County."

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of an RDEB transfer from Tentative Tract Map No. 13935.

Includes 68.1 acres and 2.57 units of approved tentative tract maps.

Includes 19.4 acres of an approved tentative tract map.

Includes 14.1 acres of an approved tentative tract map.

Includes 14.1 acres of an approved tentative tract map.

Includes approximately 109.2 acres of undisturbed open space, approximately 20.4 acres of revegelated manufactured stopes, and approximately 5.2 acres of drainage facilities.

An 8.4 acre portion of the 19.9 acre site is subject to city approval of a 30-unit RDEB transfer from Tentative Tract Map No. 13935. Absent such transfer, the school site would be 11.5 acres.

Residential development would be subject to a future Specific Plan Amendment.

The Empire Economics report has also addressed the development potential of Planned Communities in the subject market area. This is summarized below.

"Therefore, as the various PC approach build-out, there is a reduction of the supply of residential products that are coming to the marketplace. A comparison of the supply of homes in the currently active projects, some 9,365, with the recent absorption rate, some 3,000 units, reveals that these projects will be built out during the next three years. During 2000m, the rate of absorption declined to some 3,000 units, as compared to 4,500 units in the prior years. Furthermore, most of the remaining supply is concentrated in the PC of Talega and Ladera, which are developing on a phase-phase basis. Consequently if the current economic and financial market conditions continue to generate a strong demand for housing, then the residential market in south Orange County will encounter a significant shortage due to supply constraints. Thus, the residential market conditions for the currently active and forthcoming PC, are expected to be favorable."

The report also addressed the market conditions for the industrial, office markets in Southern California and Orange County. The report has concluded the following:

"Therefore, the South Orange County industrial market, which includes CFD 90-2, has significantly higher rents than Orange County, and also a slightly higher vacancy rate than Orange County, as a whole. Specifically, this can be attributed to the South Orange County industrial market being comprised of relatively newer industrial buildings, which in turn, have higher levels or rents due to the construction costs as well as somewhat higher vacancy rates due to the time required to lease up new space."

They have stated the same for the office market in their report.

It should be noted that the absorption schedules presented in the market absorption report represent the structure being completed as well as being occupied by a final-user. In the preparation of the appraisal I have taken into consideration that occupancy by the end user (typically homcowner) generally occurs at least one year after the infrastructure and grading has been complete. Therefore, in analyzing the absorption schedules from Empire Economics, I have considered an absorption of lands 1+ year earlier since in my cash flow analysis I am considering the sale to the merchant builder. I have also taken into consideration the Empire Economic is "market cutry" for the villages, which is listed in the estimated absorption schedule.

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Also factored into the feasibility of the development is the success of the existing projects, including the sale of lands in the Business Park. Following is a summary of these developments.

	Planning		Total	Recorded
Village	Area	Project	Units	Transactions
\vdash	1-D/1E	Tierra Linda	89	89
	1-F/G	San Rafael	08	80
	1-H/1-I	Monterey	108	108
	7	Pacifica	47	47
	2-B	Vizcaya	14	14
	2-F	Carmel	98	98
	2-G	Seaside	140	140
	2-H	Solana	120	120
	2-1	Trindad	105	105
	2-M/P	Farallon Ridge	132	88
	2-V	Pacifica Summit	19	89
	2-0	Aparlments	252	Not Yet Marketed
	2-N	Affordable	186	Not Yet Marketed
	2-0	Miralcstc	101	33
	2-R	Montellano	19	9
	5-S	Cantabria	58	22
	3-G	Portofino	38	Not Yet Marketed
	TC	Town Center	302	Not Yet Marketed

The above represents a strong demand for the existing residential product currently being marketed in the Talega Masterplan area.

SUMMARY HIGHEST AND BEST USE - AS VACANT

The final determinant of the highest and best use as vacant is the interaction of the previously discussed factors (i.e. physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is my opinion that the highest and best use for the proposed development of the subject property is for a master planned residential project in a phased development consistent with the land use that has been approved for the project.

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(Lipsiage Project)
Expert Media School District
Bruce W. Hull & Associates, Inc.

SUMMARY HIGHEST AND BEST USE - AS IMPROVED

The existing residential product is an average to excellent quality new detached residential and attached housing product. These uses are considered to be the highest and best use of the subject project. The new industrial buildings are of good quality construction and design. The continued use is considered to be the existing use.

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VALUATION PROCEDURE

The valuation of the subject property will be presented in the following format. First, a discussion of the market data, which is utilized in the valuation of the subject property, will be presented. The valuation analysis for the subject property will be in two sections.

lands in the Business Park, which have been sold by Talega Associates. The valuation will utilize the Sales Comparison Approach or Cost Approach. The first step in the appraisal process was to Section I will address the planning areas that have been sold to the merchant builders and those collect demographic information relating to the region and immediate area of the subject. This 2002 as well as demographic information collected from the County of Orange and other sources. included the review of a marketing absorption report prepared by Empire Economics dated August

majority of these planning areas have been developed with housing products. The current status of the majority of the planning areas are completed homes, homes under construction, and finished lots and superpad lots. Each planning area will be valued based on its current status. Houses that are currently under construction will be valued as a finished lot as opposed to any "partial completion The planning areas that have been sold to merchant builders will be valued independently. The value". Section II will address the valuation of the remaining master developer owned properties. In the valuation of these planning areas, the value will be estimated by using a Discounted Cash Flow Analysis (also known as Development Procedure). in the case at hand, the Discounted Cash Flow Analysis will take into consideration the retail or 'salable condition" of the subject property. The master developer has entitlements under two specific plan documents (the City of San Clemente and the County of Orange). The property is currently undeveloped with different planning areas in varying stages of entitlement. I have reviewed backbone infrastructure costs prepared by Robert Bein, William Frost & Associates

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Consulting"). Written correspondence by Jeffrey T. Okamoto, P.E., of RBF Consulting indicates hat these are representative costs. (A copy of which is located in the Addenda of this report). In addition, The Moote Group has estimated the builder improvement costs on the majority of the planning areas. A list of all the planning areas and the cost estimates for each, which were prepared by The Moote Group, is located in the Addenda of this report. 10. Both the backbone infrastructure and builder improvement costs have been retained in my files. As the property is under development and remaining costs are available to determine what is remaining to be spent to construct finished ots, it is my opinion that the most appropriate unit of comparison for this property is the condition in which it will be sold on a retail basis. That is, there are planning areas which are being sold in a 'finished lot" condition, planning areas being sold in a "superpad" condition, and commercial parcels which are being sold in a "supcrpad" condition on a per square foot basis.

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resulting cash flow will be discounted by an appropriate discount rate due to (1) the time value of The Sales Comparison Approach will be utilized in determining the retail value. In the Sales Comparison Approach market value will be estimated by comparing properties similar to the subject property that have recently sold, are listed for sale, or are under contract. After determining the retail value of the subject property, the next step in the Discounted Cash Flow Analysis is to determine the absorption period to determine the timing of the sales of the planning areas. In this case the timing of the sales refers to the sale of a planning area to a merchant builder or in the case of the commercial property, the builder or owner user. Next the associated costs with the development of the site to a finished or salable condition will be determined in conjunction with the absorption schedule. These costs, as well as indirect costs (marketing, administration, ad valorem and special tax obligation, and interest on land loan), arc considered and deducted from the gross revenue (retail value). Finally, the money; (2) the risk associated with the project; and (3) the profit that the developer would require. The analysis of the above revenues and costs results in a present value for the subject property in its "as is" condition, assuming the improvements as a result of the subject CFD are installed.

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on the Assessor's Roll. In this section any parcel for which the improvement value was not 90% of Section III represents the recorded transactions that have occurred to the individual homeowners as well as parcels that have been improved with industrial buildings which have not yet been reported the recorded sales price was regarded as a "gap" parcel. This is detailed in this section of the report. These sales represent current market value and are listed within this section of this report. Section IV represents the completed homes owned by individual homeowners and those industrial buildings that have been constructed and have an improvement value per the 2002/2003 County Assessor's Roll.

MARKET DATA DISCUSSION

Residential Land Sales

County marketplace. In addition to the subject sales, I have collected over 100 sales from the South Orange County/Irvine area that span several years from 1998 though current escrows. These have have completed a due diligence of collecting comparable "merchant builder sales" in the Orange been separated and reported according to the following categories.

- Attached Land Sales
- Residential Lot Sales (2000 to 4000 sf)
 Residential Lot Sales (4000 to 6000 sf)
 Residential Lot Sales (6000+ sf)

These sales are discussed under the appropriate category as follows. Summary charts of the sales are located in the Addenda of this report.

Attached Land Sales

A total of 31 land sales were collected and analyzed. It should be noted that the current market for attached product is very strong. Attached single-family homes have appreciated significantly over he last year with the median price increasing from 17% to \$321,759. In the Inland South submarket it increased 28% to \$300,323.

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¹⁰ These cost estimates were prepared several years ago, therefore, a 15% adjustment has been added.

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These sales are summarized in chart form and located in the Addenda of this report. A brief description of each is below.

Data No. 1 is a sale of a mass graded site from the Irvine Company to Irvine Apartment Communities. The price was established by arbitration procedures involving several third part appraisers. The development will consist of approximately 539 luxury apartment units in two components consisting of 188 townhome units on 11.8 acres and 351 two-story, walk-up units on 17.8 acres. A CFD formed with annual tax of approximately \$908 per unit. The price per unit abstracted from this sale is \$57,724.

<u>Data No. 2</u> is a mass-graded site located in Irvine at the prime comer of Jamboree Road and Michelson Drive. The site has entitlements for 1,226 units. The average projected apartment rental is estimated at approximately \$1,425 per unit. There are no special taxes or assessments that encumber this site. The price per unit abstracted from this sale is \$32,626.

Data No. 3 is a mass-graded site in Mission Viejo. The site has slope problems and the sale recording was delayed due to litigation. The buyer has fees totaling approximately \$7,500 per unit. There are two CFDs that encumber the site. The price per unit abstracted from this sale is \$18,842.

<u>Data No. 4</u> is also located in Mission Viejo with the City of Mission Viejo being the seller. There were two separate pads as well as slopes and Southern California Edison ("SCE") casements that impacted the site. The price per unit abstracted from this sale is \$16,204. The sales price was negotiated approximately 2 years prior to the recordation.

Data No. 5 is sale of a mass-graded site located in Aliso Viejo. The transaction was originally negotiated in early 1997 at the same price based upon a yield of 475 units. The closing was held up due to the sale of Mission Viejo Company assets to Shea Homes and protests from the neighboring condominium homeowners. The closing date was extended to the end of 1997 and the parties

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reportedly agreed to keep the same price for a lesser number of units in recognition of rising land values during the closing delay. Mello-Roos special taxes in the amount of \$955 encumber the site.

Data No. 6 is a mass-graded site also located in the Aliso Viejo community. This is an older sale. The site had an approved density of 23.8 units per acre and 124 apartment units. A Mello-Roos special tax of \$955 per unit per year impacts the subject property. The price per unit abstracted from this sale is \$25,661.

<u>Data Nos. 7 and 8 are both sales in Oak Village, a new development in the City of Irvine.</u> While both are located in the same development, the difference relates to the date of sale (No. 8 sold in Village 1, while No. 7 is a current sale pending in Village 2). Both sales are subject to an Assessment District with a total tax and assessment rate exceeding 2%.

<u>Data No. 9</u> is a recent sale (August 2000) within the subject project (Planning Area 2-O). This sale is scheduled to close within the next three months. According to the developer, there were a number of offers on this site.

Data No. 10 is a sale in Irvine. The site sold in a blue top condition with a condominium product averaging 1,128 square feet and a sale price of \$193,000 developed on the site.

Data No. 11 is a sale in Sector 2 of West Irvine. This 8.8-acre parcel sold in a blue top condition. The proposed housing product is townhomes with a 15.7 density per acre. The average sales price is \$239,100 for an average unit of 1,387 square feet.

<u>Data No. 12</u> is also a sale in Sector 2 of West Irvine. This 9.3-acre parcel sold in a blue top condition. The density is 14.2 units per acre for this townhome project. The average sales price is \$260,400 for an average unit of 1,549 square feet.

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<u>Data No. 13</u> is located in Oakcreek within the City of Irvine. This project has a density of 20.3 units per acre for a condominium project with a average sales price of \$171,000 for an average unit of 921 square feet.

<u>Data No. 14</u> is located in Village 3 of Ladcra Ranch. This project of townhomes consists of 158 units on 8.5 net acres for a density factor of 18.59 dwelling units per acre. The finished price per unit was \$59,017 per unit. The average base price for the product is estimated at \$212,216 for the 1,254 square foot average unit.

Data No. 15 is also located in Village 3 of Ladera Ranch with a closing in the 1" quarter of 2001. The finished price per unit was \$74,106 for the 100 units. The density for the 7.20 net acres was 13.89 dwelling units per acre. The average base price was \$224,000 for the 1,339 square foot average unit.

Data No. 16 was an acquisition of 130 units in Village 3 of Ladera Ranch with a density factor of 12.62 units per acre. The finished price per unit was \$92,973 with the average square footage being 1,575 and the average base price being \$246,682.

Data No. 17 consists of 144 units in Village 3 of Ladera Ranch. These units are anticipated to be 1,725 square feet with an average base price of \$235,667. The acquisition price per lot (superpad) was \$46,444 per dwelling unit and the price per finished unit was \$64,440.

Data Nos. 18 and 19 are located in the subject development and represent the transactions of The Town Center, attached product near the existing clubhouse and golf course. The sales ranged from \$46,300 to \$50,300 for a mass graded condition. The finished lot value was estimated to range from \$99,000 to \$129,000. These sales occurred in March 2002.

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Data No. 20 is also located in the subject development, and was acquired in January 2002 by Bre Properties. Originally the site was designated as business plan but a change in land use allows for apartments (110 units). The price per unit for the mass graded site was \$46,000 per unit.

Data No. 21 is located in the Northpark area of Irvine. The project is of townhomes with an average size of 1,626 square feet with the average sales price of the homes being \$316,500. The finished lot was \$137,200.

<u>Data No. 22</u> is also located in the Northpark Squarc arca of Irvinc. The attached product averages 1,632 square feet in size with the site being acquired in a blue top condition. The price per finished lots was \$124,100.

Data No. 23 is a clustered small lot development with homes averaging in size of 1,572 square fect. The sale was based upon a finished lot price of \$156,327 with the site being sold on a blue top condition.

Data No. 24 is a condo development that has an average size of 1,574 square feet with the average sales price being \$280,000. The site was sold on the basis of \$100,300 and delivered in a mass graded condition (\$74,887 per unit).

Data No. 25 is a sale of a site that was developed to condominiums with an average unit size of 1,562 square feet. The average sales price was \$268,500 with the finished lot price being \$124,100. The site was sold in a mass graded condition (\$72,636 per unit).

<u>Data No. 26</u> is clustered single-family residence that has average single-family of 1,700 square foct. The average sales price was \$339,600 with the finished lot price of \$171,570. The site was sold in a blue top condition (\$131,570 per lot).

<u>Data No. 27</u> is located in a new development of Irvine known as Quail Hill. This sale is occurring in a four-phased transaction. The single-family units will average 1,100 square feet in size with the

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average sales price being \$391,200. The finished lot price was 224,872 with the site being sold in a blue top condition (\$183,889).

Data No. 28 is also located in Quail Hill. This sale is for courtyard townhome units that average 1,111 square feet in size with an average sales price of \$\$278,000. The price per finished lot was \$113,388 with the site being sold in a blue top condition (\$85,293 per unit).

<u>Data No. 29</u> is located in the Turtle Ridge area of Irvine. The development is of stacked condo flats with the average unit being 1,285 square feet in size. The finished lot price was \$146,350 with the site developed in a graded condition (\$115,527 per unit).

Data Nos. 30 and 31 are both current transactions in Village 3 of the subject development. Square footage for the proposed product ranges from 1,334 to 2,187 with proposed pricing from \$269,000 to 5372,000.

Residential Lots (2000 to 4000 SF)

There were 43 land sales that were collected for this category of land. These are summarized in the Addenda. A brief description of these sales is as follows.

Data Nos. 1 thru 3 represent sales within the subject project. Data No. 1 represents a sale of 85 lots to Lennar Homes in December 1998. The site was delivered in a mass graded condition. The product to be developed is a luxury villa with a proposed pricing in the \$190,000 to \$230,000 range. The costs were higher than typical as a result of extensive recreation facilities (including pool) being included in the "cost to complete" a finished lot. Data No. 2 is a sale of 120 lots with the lot size being 2,700 square feet. The product type for these is referred to as "Solana" with prices ranging from \$212,000 to \$232,000. The price per finished lot is \$103,063. Data No. 2 is a townhouse project with a density of 12.8 dwelling units per acre. The price per unit is \$79,261.

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Data Nos. 4 thru 8 refer to sales to merchant builder transactions in the Ladera masterplanned connunuity, just north of the subject property. Data No. 4 is a clustered development with product type in the 1,550 to 1,700 square foot range and an average sales price of \$220,000. Data No. 5 is a detached housing product with homes proposed in the 1,500 to 1,725 square foot range and an average sales price of \$223,300. Data No. 6 is also a detached product with a square footage range of 1,700 to 2,050 and an average sales price of \$253,300. Data No. 7 is similar to Data No. 6 with a similar product and average sales price. Data No. 8 is a detached home with a housing product ranging from 1,900 to 2,275 square feet and an average sales price of \$226,200. The Ladera project is subject to a CFD and, according to estimates by David Taussig & Associates (special tax consultant), the tax rate is anticipated to be 2%.

<u>Data Nos. 9 thru 11</u> are located in Las Flores, another masterplanned community within proximity to the subject property. Data No. 9 is a cluster-detached product with housing product ranging from 1,075 square feet and an average sales price of \$170,000. Data No. 10 is a detached home product with an average sales price of \$200,000 and housing product ranging from 1,777 to 2,203 square feet. Data No. 11 is also a detached product with an average sales price in the mid \$200,000 range and square footage ranging from 1,921 to 2,312. Las Flores has a CFD with a special tax of 1.95%.

Data Nos. 12 thru 14 are located in Aliso Viejo, another masterplanned community in South Orange County. This community is more built-out than either Ladera or Las Flores with development occurring over the last 10 years. Data No. 12 is a detached home product with an average sales price of \$250,000 and housing product ranging from 1,830 to 2,140 square feet. Data No. 13 is a cluster detached product with an average sales price in the \$250,000 range with housing product 1,234 to 1,800 square feet. The Aliso Viejo masterplanned community is subject to both a County of Orange CFD and a Capistrano Unified School District CFD at an approximate tax rate of 1.86%.

Data No. 15 is a sale in the Forester Ranch, a master-planned community also located in San Clemente. Housing product is in the 1,820 to 2,150 square foot range with an average sale price of \$255,000.

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Data No. 16 is an older sale in San Clemente.

Data No. 17 is a recent transaction within the subject project. The proposed product for this development is referred to as "Farallon Ridge". The homes range in size from 1,871 to 2,344 square feet with sale prices ranging form \$340,000 to \$380,000. Data No. 18 is another sale within the subject project. This 295-unit project is "age restricted" with a variety of housing products proposed on varying lot sizes. The overall density of this product is 6 units per acre. This sale is provided for information purposes only. Data No. 19 is also located in Village 2 of Ladera Ranch. The product developed on this parcel ranges from 2,000 to 2,409 square feet with a sales price range of \$300,000 to \$350,000. The price per unit for this sale is \$152,000 per finished lot. Data No. 20 is also located in Village 2 of Ladera Ranch. The product developed on this parcel ranges from 2,650 to 3,117 square feet with a sales price range of \$380,000 to \$400,000.

square feet. At the time of sale the average price was \$270,000. It was subsequently increased to Data No. 21 is a purchase in Aliso Viejo for a housing product ranging in size from 1,499 to 2,067 \$305,000.

Data No. 22 is a sale in Sector 2 of West Irvine. The single-family dwellings will average 1,907 square feet with a sales price of \$317,500. This will be a phased sale. Data Nos. 23 and 24 are both located in Village 2 of Ladera Ranch. Data No. 23 is a detached product in a clustered development with square footages ranging from 1,522 to 2,029 square feet and sales prices in the mid-\$200,000. Data No. 24 is also a detached product on a small lot with base pricing in the mid \$200,000s.

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Data No. 25 is a sale in Sector 2 of West Irvine with a housing product average in size of 1,954 square feet and pricing of \$292,900. This is a phased sale. Data No. 26 represents a sale in the Talega Project. This project consists of 47 units each with an average lot size of 3,500 square feet. This sale recorded in July 2000 and sold on the basis of \$35,449 per lot.

The single-family product is proposed to average 1,640 square feet with an average base price of Data No. 27 is a sale in Ladera Ranch (Phase III) that consists of 83 lots on 8.80 acres. This \$270,000. The sale price of the land was negotiated on a finished lot basis of \$111,451, but was represents a density factor of 9.43 dwelling units per acre. The typical lot size is 2,500 square feel. delivered to the buyer in a mass graded condition.

The single-family product is proposed to average 1,852 square feet with an average base price of \$294,500. The sales price of the land was negotiated on a finished lot basis of \$111,948, but was Data No. 28 is a sale in Ladera Ranch (Village III) that consists of 98 lots on 11.0 net acres. This represents a density factor of 8.91 dwelling units per acre. The typical lot size is 2,880 square feet. delivered in a blue top condition at \$75,000 per dwelling unit.

This represents a density factor of 9.32 dwelling units per acre. The typical lot size is 3,200 square leet. The single-family detached product is proposed to average 1,988 square feet with an average base price of \$324,729. The sales price of the land was negotiated on the basis of \$140,952 per Data No. 29 is another sale in Ladera Ranch (Village III) that consists of 69 lots on 7.40 net acres. finished lot but the land was delivered in a blue top condition at \$103,050 per dwelling unit. Data No. 30 is a sale in Ladera Ranch (Village III) that consists of 111 lots on 18.10 net acres. This represents a density factor of 6.13 dwelling units per acre. The typical lot size is 3,500 square feet. The single-family detached product is proposed to average 2,184 square feet with an average base

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price of \$346,736. The sale price of the land was negotiated on a finished lot basis of \$166,651 but the land was delivered to the buyer in a blue top condition at \$139,532 per unit.

<u>Data No. 31</u> is another sale in Ladera Ranch (Village III) that consists of 113 lots on 19.5 net acres for a density factor of 5.79 dwelling units per acre. The typical lot size is 4,000 square feet. The single-family detached product is proposed to average 2,343 square feet with an average base price of \$332,265. Sales price of land was negotiated on the basis of \$168,011 per finished lot but was delivered to the buyer in a blue top condition.

<u>Data Nos. 32 and 33 are located in the Northpark Square area of Irvine.</u> Both are phased sales that were negotiated in 2001. The wide range in finished lots (\$277,750 and \$186,800) is attributed to sales price of homes and different lot sizes.

<u>Data Nos. 35 thru 41</u> are located in Quail Hill, a new development in Irvine. All represent 2002 transactions, which indicate a strong demand for housing and appreciation in lot values. The price per finished lot for the typical 4,000 to 5,000 square foot lot ranged from low to mid \$300,000 price range. Lots in the 3,000 square foot range were in the mid \$200,000 price range for the finished lots.

Data No. 42 is located in the Turtle Ridge area or Irvine. This is a 6-phased sale with the detached courtyard single-family homes average 1,595 square feet with an average sales price of \$429,000. The price per finished lot was \$247,104.

Data No. 43 is a current transaction within the subject development, scheduled to close in late 2002. The proposed product is for homes that range in size from \$379,000 to \$415,000 with the average square footage ranging from 2,025 to 2,371 square feet.

Residential Lots (4000 to 6000 SF)

A total of 47 sales were collected for this category. A summary of these sales is located in the Addenda. A brief description of each is given on the following pages.

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Data Nos. 1 thru. 4 are sales within the subject development and represent December 1998 closings. Data No. 1 (Torra Linda), acquired by Catellus Residential Group, has a housing product with an average sales price of \$404,000 to \$566,000 and a square footage range of 2,406 to 2,839. Data No. 2 (San Rafael) is proposed to be more of an upscale project, ranging from 3,116 to 3,536 square feet with a sales price range of \$613,000 to \$717,000. Data No. 3 (Monterey) is an acquisition by Standard Pacific with a current pricing of \$442,000 to \$640,000 and a unit range of 2,692 and 3,261 square feet. Data No. 4 is also a purchase by Standard Pacific who designates this as "Pacifica" with sales prices ranging from \$517,000 to \$875,000 and size ranging from 3,498 to 3,936 square feet.

Data Nos. 5 thru 8 are located in Ladera Ranch, a masterplanned community north of the subject property. Data No. 5 is a proposed product of detached homes between 2,150 and 2,600 square feet with a proposed sale price of \$337,600. Data No. 6 is also a detached single-family project with an average sales price of \$382,000 and homes proposed at 2,450 to 2,850 square feet. Data No. 7 is a sale of 97 lots with a proposed average home sales price of \$422,000 and square footage between 2,775 to 3,150 square feet. Data No. 8 has an average sales price of \$491,300 with homes to ranging in size from 3,100 to 3,650 square feet. The Ladera Ranch development is subject to CFD special taxes and total taxes approximate 2%.

Data Nos. 9, 11, 18 and 19 are located in Aliso Viejo, an existing masterplanned community. Data No. 9 is a detached home project with an average sale price of \$300,000 and homes ranging in size from 2,388 to 2,770 square feet. Data No. 11, also located in Aliso Viejo, is a development with detached homes ranging in size from 2,841 to 3,131 square feet and sales prices in the low \$300,000s. Data No. 18 is another project in Aliso Viejo with detached homes ranging from 2,296 to 2,663 square feet and sales prices ranging from \$335,000 to \$368,000. Data No. 19 is an older sale of 154 lots in the Aliso Viejo community. This project had an average sale price of \$325,000 with homes ranging in size from 3,840 to 3,680 square feet. Aliso Viejo has a combined tax rate of 1.86% including CFD special tax obligation.

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Data Nos. 10 and 12 are located in the Rancho Santa Margarita, an established masterplanned community in South Orange County. This development has been in existence for 10 years. Data No. 10 is of a detached product with an average sales price of \$272,500 and homes ranging in size from 1,983 to 2,779 square feet. Data No. 12 is a purchase by William Lyon Company of 99 lots with a proposed detached housing product of 2,200 to 2,800 square feet and an average sales price of \$370,000.

Data Nos. 14 and 15 are located in the Coto de Caza area of South Orange County. Both developments are detached single-family residences. Data No. 14 has a product in the high \$300,000 range, while Data No. 15 is in the same price category.

<u>Data Nos. 16 and 17</u> are both located in Mission Viejo, the oldest masterplanned community in the South Orange County marketplace. This community is centered around a lake with these two transactions located in the locale of Olympiad Road and Alicia Parkway. Both builders, Standard Pacific and D.R. Horton, had sales prices in the \$400,000 range with homes in the 2,500 to 3,000 square foot range.

<u>Data No. 20</u> is a sale within the subject project, acquired by Shea Homes on December 29, 1998 on the basis of \$133,000 per finished lot.

<u>Data Nos. 21 and 22</u> are located in Village 2 of Ladera Ranch. Data No. 22 is a William Lyon project with floor plans ranging from 2,650 to 3,117 square feet with prices ranging from 5400,000 to \$450,000. Data No. 23 is a Warmington Homes project with housing product ranging from 3,105 to 4,072 square feet and base pricing from \$485,000 to \$560,000.

<u>Data Nos. 23 and 24</u> are located in Forester Ranch, a masterplanned development in San Clemente. Data No. 23 is a project with homes priced from \$410,000 to \$450,000 and floor plans ranging from 2,517 to 2,903 square feet. Data No. 24 is a project with homes priced from \$400,000 to \$500,000 and floor plans ranging from 3,049 to 3,477 square feet.

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<u>Data Nos. 25 and 26 are both located in Sector 2 of West Irvine.</u> Data No. 26 has a housing product that averages 2,849 square feet with an average base price of \$357,870. Both are phased land transactions.

Data No. 27 is a sale in Ladera Ranch (Village 3) that consists of 102 lots on 19.90 acres. This represents a density factor of 5.13 dwelling units per acre. The typical lot size is 4,500 square feet. The single-family detached product is proposed to average 2,450 square feet with an average base price of \$3.95,284. The sales price of the land was negotiated on a finished lot basis of \$1.75,446 but was delivered to the buyer in a blue top condition at \$1.38,000 per unit.

<u>Data No. 28</u> is a sale in Ladera Ranch (Village 3) that consists of 99 lots on 22.30 net acres. This represents a density factor of 4.44 dwelling units per acre. The typical lot size is 5,000 square feet. The single-family detached product is proposed to average 2,806 square feet in size with an average base price of \$442,509. The sales price of the land was negotiated on a finished lot basis of \$188,975 but was delivered to the buyer in a blue top condition at \$149,495 per unit.

<u>Data No. 29</u> is a sale in Ladera Ranch (Village 3) that consists of 58 lots on 14.10 net acres. This represents a density factor of 4.11 dwelling units per acre. The typical lot size is 5,500 square feet with an average base price of \$514,138. The sales price of the land was negotiated on a finished lot basis of \$195,020.

<u>Data No. 30</u> relates to a transaction within the subject project. This is Planning Area 2-S, which was acquired by BHC Residential, LLC in December 2000. This planning area consists of 16.5 acres with approval for 58 lots, each with a lot size of 5,500 square feet. The single-family detached product ranges in price from \$684,000 to \$808,000 with a dwelling size of 2,846 to 3,650 square feet. The sales price of the land was negotiated on the basis of \$177,678 per lot.

<u>Data No. 31</u> is also a recent transaction with the subject project (Planning Area 2-Q). This planning area ("Miraleste") consists of 107 lots on 24.3 acres. This represents a density factor of 4.40

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dwelling units per acre. The typical lot size is 5,000 square feet. The single-family detached product is anticipated to range in price from \$564,000 to \$750,000 with a dwelling size of 2,777 to 3,231 square feet. The sales price for the land was negotiated on the basis of \$160,143 per finished lot.

<u>Data No. 32</u> is a recent transaction for 38 lots in Village 3 of the subject development. Purchased by Citation Homes (aka Tava Development), the product is proposed to be priced from \$473,000 to \$520,000 with the homes ranging in size from 1,517 to 2,911 square feet.

Data Nos. 33 thru 35 are older sale transactions in the Northpark Square area of Irvine. These transactions ranged in finished lot prices from \$282,000 to \$320,000.

Data No. 36 is located in Newport Beach and was indicative of the higher priced housing on this tract (average sales price of the completed home being near \$900,000).

Data Nos. 37 and 38 are older sales in the Northpark area of Irvine with finished lot prices ranging from \$243,000 to \$315,000. The lot size ranges from 4,750 to 6,000 square feet.

Data 39 thm 42 is indicative of the appreciation that has occurred in the Irvine area. These transactions that occurred in 2002 indicate a finished lot price that ranged from \$315,000 to \$476,613 per lot. The lots ranged in size from 4,000 to 6,000 square feet.

Data No. 43 is a transaction in the Forster Highlands area. This transaction had 144 lots with 4,000 square foot minimum lot sizes. The single-family homes are from 2,460 to 2,900 square feet. Approximately 50% of the lots appear to have marketable view premiums. The finished lot price was approximately \$233,000.

Data No. 44 is also located in the Forster Highlands area. This transaction had 110 lots with a 5,000 square foot minimum. The single-family homes will range from 2,700 to 3,100 square feet.

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Approximately 50% of the lots are considered to have marketable view premiums. The price per finished lot was \$245,000.

Data No. 45 is another transaction within the Forster Highlands area. This transaction had 97 lots with single-family homes ranging in size from 2,450 to 3,682 square feet. Approximately 50% of the lots are estimated to have marketable views. The price per finished lot was 287,600.

Data Nos. 46 and 47 are located in the subject development. These lots are 4,500 square feet in size and the finished lot price ranged from \$195,000 to \$215,000 per finished lot. The proposed product is in the low \$400,000 to mid \$400,000 price range.

Residential Lots (6000+ SF)

I have investigated 20 merchant builder transactions sales in the Orange County areas. These are summarized in the Addenda. A brief description of each is below.

<u>Data No. 1</u> is a recent transaction in the Tustin Ranch area. Standard Pacific purchased 46 lots that range in size from .25 to .83 acres. Minimum lot pads will be 9,600 square feet with views available from the majority of the sites. Average sales price of homes will be \$809,000. Sales price was negotiated on the basis of \$336,000 per finished lot.

<u>Data No. 2</u> is sale of 50 lots in the Dana Point area with lot sizes in the 10,000 to 12,000 squarc foot range and home prices over \$1,000,000.

<u>Data No. 3</u> is a sale of 7 lots in San Juan Capistrano. These lots range in size from 9,200 to 14,000 square feet. The proposed product for this development is priced at \$625,000 with the size of the homes ranging from 3,650 to 3,950 square feet.

<u>Data No. 4</u> is an older sale in a project referred to as Pacific Point in the San Juan Capistrano area. The project is referred to as "The Vista" with 65 of the 85 lots having ocean views. While the

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agreement took place in July of 1997, litigation has stymied the closing of the transaction (litigation involves slides on other portions of property owned by Sun Cal, the seller). The transaction was structured in three "take-downs" with the first lots being sold at \$250,000 and the last 45 lots being acquired at \$280,000.

<u>Data No. 5</u> is a sale of 90 lots in the Coto de Caza area and included 90 lots with lot sizes of 6,300 square feet. Detached homes with sizes ranging from 3,186 to 3,800 square feet were planned for this project. The price was based on a finished lot basis of \$265,000 per lot.

<u>Data No. 6</u> is a transaction within the subject project. This development, known as "Vizcaya", is currently being developed with homes ranging in size from 4,869 to 5,484 square feet and pricing in the \$1,000,000 range.

Data No. 7 is another sale within the subject development. This project will be an "extension" of Standard Pacific's "Pacifica" project. The housing product ranges in size from 3,542 to 4,188 square fect with the base price ranging from \$515,990 to \$600,000+. Lot premiums range up to \$120,000.

<u>Data No. 8</u> is a sale in Village 2 of Ladera Ranch in which homes will range from 3,750 to 4,524 square feet and base pricing will be in the low \$600,000s.

<u>Data No. 9</u> is a transaction within Forester Ranch. These lots sold on the basis of \$224,217 per finished tot.

Data Nos. 11 thru 13 are older sales transactions in the City of Newport Beach. The finished lot prices for these lots, which ranged in size from 7,000 to 12,000 square feet, was from \$438,900 to \$785,000.

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Data No. 14 is a recent transaction in the Nellie Gail Ranch area of Laguna Hills. This involved an excess school site that was sold by Saddleback Unified School District. The buyer, William Lyon Development, purchased the property. There are views available from portions of this site.

<u>Data Nos. 15 and 16</u> are recent transactions in the Irvine area. These transactions are representative of the strong demand and appreciation that has occurred. The finished lot prices of these transactions ranged from \$585,000 to \$707,000. The lot sizes ranged from \$,500 to 8,000 square feet.

<u>Data Nos.17 and 18</u> are also evidence of appreciation that has occurred within the last year in the residential market. Data No. 17 is sale in the Shady Canyon area of Irvine that sold on the basis of \$648,000. These lots have an average lot size of 14,000 square feet with the finished product estimated to be \$1,500,000. The lots had golf course views. Data No. 18 is a continuation of Date No.17 project and represents a more current transaction (June 2002). The price per finished lot for these 20 lots is \$915,000 with the finished product estimated to be \$1,849,000.

Business Park Land Sales

A total of 22 comparables were collected for this land category. A summary of these sales is listed in the Addenda. A brief description of each is below.

Data No. 1 is at the northerly corner of Avenida Pico and La Pata. The site was purchased for \$525,000 or \$10.10 per square foot. The site is fully improved with streets, curbs, and gutters.

Data No. 2 is a 6.45-acre site at the easterly corner of Avenida Pico and La Pata. The site was purchased in July of 1998. An 87,868 square foot R&D building has been constructed on the site. The land transaction of \$1,900,000 represents a price per square foot of \$6.76.

<u>Data No. 3</u> is located in Rancho San Clemente Business Park. This 1.621-acre site was purchased for the development of a two-story corporate headquarters. The purchase price of \$635,000 represents a price per square foot of \$9.00. The site is subject to an assessment lien.

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<u>Data No. 4</u> is located at the southwest corner of Avenida La Pata and Calle Del Cerro in the City of San Clemente. This purchase of 5.47 acres was for the development of small industrial buildings to be constructed and offered for sale. The price per square foot abstracted from this sale is \$7.00.

Data No. 22 is a site located near the entrance to Talega and is being developed in conjunction with

another lot (not located in the subject CFD).

<u>Data No. 4A</u> is a resale of Data No. 2. The new buyer, a developer, proposes to develop eight small industrial buildings ranging in size from 6,800 to 26,000 square foot. The purchase price for this site was \$2,204,000 or \$9.25 per square foot.

<u>Data No. 5</u> is another transaction in Rancho San Clemente Business Park, with the buyer developing a two-story concrete tilt-up 23,000 square foot R&D building. The site was purchased for \$625,000 or \$9.52 per square foot.

<u>Data No. 6</u> is a finished site within the Rancho San Clemente Business Park purchased for development of a self-storage project, known as Rancho San Clemente Self Storage. The two-story project will contain approximately 80,000 square feet divided into 712 units. The land was purchased for \$87.5,000 or \$7.75 per square foot.

Data Nos. 7 thru 11 are sales within the subject project and are older transactions. These sales occurred from September 28, 2000 through December 19, 2000 on the basis of \$9,00 to \$10.25 per square foot.

<u>Data Nos. 12 thru 14 represent resale activity in Village 1 of the Talega Business Park.</u> These sales ranged from \$12 to \$13.54 per square foot. These prices included additional precise grading of the three siles, which the seller estimated was \$1.00 per square foot.

<u>Data Nos. 15 thru 21 represent current transactions in Village 2 of the subject business park.</u> These sales are scheduled to close in October 2002 and are being sold on the basis of \$11.50 per square foot.

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DESCRIPTION AND VALUATION - MERCHANT BUILDER PARCELS

The following represents a description of the Planning Areas located within the Talega Specific Plan that have been purchased by Merchant Builders.

PLANNING AREA 1-D / 1-E ("Terra Linda")

This planning area is located within Village 1 and was purchased by Catellus Residential Group who section of this report. This project consists of 68 lots, which have a typical 5,000 square foot lot. All recorded the transaction on January 6, 1999. The land acquisition is discussed in the Sales History 68 lots are recorded transactions to homeowners through September 3, 2002. These will be addressed and valued in Sections III and IV of this report.

PLANNING AREA 1-F/1-G ("SAN RAFAEL")

This planning area is located within Village I and was purchased by Catellus Residential Group who recorded the transaction on January 6, 1999. The land acquisition is discussed in the Sales History section of this report. This project consists of 80 lots that have a typical 5000 square foot lot. All 80 lots are recorded transactions to homeowners through September 3, 2002. These will be addressed and valued in Section IV of this report.

PLANNING AREA 1-H/1-I ("MONTEREY")

This planning area is located within Village 1 and was purchased by Standard Pacific who recorded the transaction on December 24, 1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 108 lots, which have a typical 4,950 square foot lot. All 108 lots are recorded transactions to homeowners through September 3, 2002. These will be addressed and valued in Section IV of this report.

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PLANNING AREA 1-J ("PACIFICA")

47 lots are recorded transactions to homeowners through September 3, 2002. These will be This planning area is located within Village 1 and was purchased by Standard Pacific who recorded the transaction on December 24, 1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 47 lots that have a typical 6,300 square foot lot. All addressed and valued in Section IV of this report

PLANNING AREA 2-B ("VIZCAYA")

recorded the transaction on December 23, 1999. The land acquisition is discussed in the Sales lol. All 14 lots are recorded transactions to homeowners through September 3, 2002. These will be This planning area is located within Village 2 and was purchased by Woodbridge Development who History section of this report. This project consists of 14 lots that have a typical 11,200 square foot addressed and valued in Section IV of this report.

PLANNING AREA 2-F ("CARMEL")

product. All 86 units are recorded transactions to homeowners through September 3, 2002. These the transaction on December 28, 1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 86 units and is being developed as an attached housing This planning area is located within Village 2 and was purchased by Lennar Homes who recorded will be addressed and valued in Sections III and IV of this report.

PLANNING AREA 2-G ("SEASIDE")

This planning area is located within Village 2 and was purchased by Shea Home who recorded the transaction on December 24, 1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 140 lots that have a typical lot size of 4,000 square feet. All 140 lots are recorded transactions to homeowners through September 3, 2002. These will be addressed and valued in Sections III and IV of this report.

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PLANNING AREA 2-H ("SOLANA")

This planning area is located within Village 2 and was purchased by Lyon Development who recorded the transaction on December 18, 1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 120 lots that have a typical lot size of 3,375 square feet. All 120 lots are recorded transactions to homeowners through September 3, 2002. These will be addressed and valued in Sections III and IV of this report.

PLANNING AREA 2-I ("TRINIDAD")

This planning area is located within Village 2 and was purchased by Lennar Homes who recorded the transaction on December 28, 1998. The land acquisition is discussed in the Sales History section of this report. This project consists of 105 units that are being developed as an attached housing product. All 105 units are recorded transactions to homeowners through September 3, 2002. These will be addressed and valued in Sections III and IV of this report.

PLANNING AREAS 2-M & P ("FARRALON RIDGE")

This planning area is located within Village 2 and was purchased by BHC Residential, LLC who recorded the transaction on May 2, 2000. The land acquisition is discussed in the Sales History section of this report. This project consists of 132 units that are being developed as a detached housing product. The homes under construction will be valued on a finished lot basis rather than to attribute value to a partially completed improvement.

Of the 132 units there have been 85 recorded transactions through September 3, 2002. There are 15 completed homes, including the model complex. All are sold, pending final certificate of occupancy. The remaining 32 lots are under construction with single-family homes.

Existing Home Valuation

There have been 31 recorded transactions for Plan 1, which ranged from \$369,990 to \$497,990 with an average price being \$426,990. I have concluded at \$425,000 for this model.

5 units x \$425,000 =\$2,125,000

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There have been 23 recorded transactions for Plan 2, which ranged from \$380,625 to \$535,112 with an average price of \$431,941 and a median price of \$424,990. I have concluded at \$430,000 for this model.

4 units x \$430,000/unit = \$1,720,000

There have been 31 recorded transactions for Plan 3, which ranged from \$397,990 to \$543,947 with an average price of \$454,444 and a median price of \$456,995. I have concluded at \$460,000 for this model.

5 units x \$460,000/unit = \$2,760,000

I have estimated that these 15 units would be absorbed within 1 month. (Actually these are sold with the closing occurring at the certificate of occupancy.) The total value for the completed homes is 5,865,000

Finished Lot Value

In valuing the lots that are under construction I have considered them as a finished lot and will not attributed a value to a partially completed house. A finished lot value will be determined followed by a deduction for the remaining infrastructure costs attributed to this planning area.

The sales that are most helpful have been summarized in chart form (Residential Lot Sales -2000 to 4000 SF), which has been placed in the Addenda of this report. Data Nos. 16 and 26 represent the subject sale, while Data Nos. 18 and 43 are also located in the Talega development. Emphasis is given to these sales. After taking the above into consideration, I have concluded at a finished lot value of \$165,000 for the 32 homes under construction, which are being treated as finished lots. This calculates as follows:

32 lots x \$165,000/lot = \$5,280,000

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Value Conclusion

There have been 132 building permits issued on this project. These are considered to be Developed Property.

\$6,605,000	\$5,280,000	(\$ 175,956)	\$11,709,044	\$11,710,000
Single-family Homes	Finished Lot Value	Less Infrastructure Allocation	Total	(say)

PLANNING AREA 2-V ("PACIFICA SUMMIT")

This planning area is located within Village 2 and was purchased by Standard Pacific Homes who recorded the transaction on July 5, 2000. The land acquisition is discussed in the Sales History section of this report. This project consists of 61 lots that have a typical lot size of 6,300 squarc feet. First, a valuation for the completed merchant builder homes will be addressed. This valuation will include a discounted cash flow due to the single ownership for a number of homes. Finally, a discussion of remaining costs to complete, if any, will take place. A summary valuation will conclude the section.

Of the 61 lots there have been 59 recorded transactions through September 3, 2002.

Existing Home Valuation via Sales Comparison Approach

Of the 61 units there have been 59 recorded transactions to homeowners through September 3, 2002. There are two lots that have not closed escrow. There have been 12 recorded transactions for Plan 1 which ranged from \$675,965 to \$922,440 with an average price of \$791,816 and a median price of \$847,089. I have concluded at \$850,000 for this model.

1 unit x \$850,000 = \$850,000

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an average price of \$846,935 and a median price of \$812,000. I have concluded at \$900,000 for this There have been 9 recorded transactions for Plan 2, which ranged from \$745,000 to \$1,052,895 with model.

1 unit x \$900,000 = \$900,000

The total value for this is \$1,750,000, which is considered to be Developed Property. An allocation Deduction of infrastructure attributed to this planning area total of \$46,714 indicates a value of for backbone infrastructure of \$175,956 results in a total value of \$1,574,044, say \$1,575,000. \$1,528,286; say \$1,530,000.

PLANNING AREA 2-Q ("MIRALESTE")

This planning area consists of 107 lots, which have a typical size of 5,000 square fect and is owned by Standard Pacific Homes. The home prices for this project are anticipated to be in the \$457,000 to transactions, 16 homes nearing completion, 4 models, 2 lots used for parking, and 43 lots under \$490,000 range and square footages to range from 2,777 to 3,231 square feet. There are 33 recorded construction for single-family homes and 9 finished lots.

Existing Home Valuation via Sales Comparison Approach

Of the 107 units there have been 33 recorded transactions through September 3, 2002.

There have been 8 recorded transactions for Plan 1 which ranged from \$564,480 to \$707,559 with an average price of \$647,725 and a median price of being \$640,297. I have concluded at \$640,000 for this model.

5 units x \$640,000 = \$3,200,000

There have been 10 recorded transactions for Plan 2 which ranged from \$607,100 to \$721,000 with an average price of \$663,672 and a median price of \$640,297. I have concluded at \$650,000 for this model.

5 units x \$650,000/unit = \$3,250,000

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There have been 7 recorded transactions for Plan 3 which ranged from \$611,000 to \$732,426 with an average price of \$657,501 and a median price of \$677,738. I have concluded at \$660,000 for this model.

5 units x \$660,000 = \$3,300,0000

There have been 8 recorded transactions for Plan 4 which ranged from \$634,579 to \$749,750 with an average price of \$669,383 and a median price of \$651,549. I have concluded at \$670,000 for this model.

5 units x \$670,000/unit = \$3,350,000

The total value for the 20 completed homes is \$13,100,000

Finished Lot Value

In valuing the lots that are under construction I have considered them as a finished lot and therefore have not attributed value to a partially completed house. A finished lot value will be determined followed by a deduction for the remaining infrastructure costs attributed to this planning area.

The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4000 to 6000 SF) and placed in the Addenda of this report. Data No. 31 represents the subject sale, while Data No. 32 is also located in the Talega dovelopment. Data Nos. 46 and 47 are also helpful since they represent current transactions in the subject project (Village 3).

After taking the above into consideration, I have concluded at a finished lot value of \$175,000. This calculates as follows:

54 lots x \$175,000/lot = \$9,450,000

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Final Value Conclusion

After taking into consideration the remaining backbone infrastructure costs, the final value conclusion is estimated below.

 Single-family Homes
 \$13,100,000

 Finished Lot Value
 \$9,450,000

 Less Infrastructure Allocated
 (491,190)

 \$22,058,810
 \$22,058,810

 (Say)
 \$22,060,000

PLANNING AREA 2-S ("CANTABRIA")

This planning area consists of 58 lots, which have a typical size of 5,500 square feet and is owned by BHC Residential, LLC. The home prices for this project are anticipated to be in the \$600,000 to \$800,000 range and square footages to range from 2,842 to 3,642 square feet. There are 22 recorded transactions, 7 homes nearing completion, 3 model homes, and 26 lot under construction with single-family homes.

Existing Home Valuation

There have been 9 recorded transactions for Plan 1 which ranged from \$693,672 to \$808,568 with an average price of \$741,948 and a median price of \$744,351. I have concluded at \$740,000 for this model.

3 units x \$740,000/unit = \$2,220,000

There have been 7 recorded transactions for Plan 2 which ranged from \$684,990 to \$806,568 with an average price of \$738,948 and a median price of \$753,930. I have concluded at \$750,000 for this model.

4 units x \$750,000 = \$3,000,000

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There have been 6 recorded transactions for Plan 3 which ranged from \$755,683 to \$803,814 with an average price of \$781,333 and a median price of \$788,662. I have concluded at\$780,000 for this

3 units x \$780,000 = \$2,340,000

The total value for the completed homes and models is \$7,560,000.

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete. The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4000 to 6000 SF) and placed in the Addenda of this report. Data No. 30 represents the subject sale, while Data Nos. 31 and 32 are also located in the Talega development. Data Nos. 46 and 47 are also helpful since they represent current transactions in the subject project (Village 3).

After taking the above into consideration, I have concluded at a finished lot value of \$175,000.

This calculates as follows:

26 lots x \$175,000 = \$4,550,000

Costs to Complete

While these lots are considered to be finished lots (refer to photograph in Addenda) there remains some backbone infrastructure that is allocated to this planning area. The allocated costs for the remaining infrastructure costs are estimated at \$49,728.

Final Value Conclusion

After taking into consideration the remaining backbone infrastructure costs, the final value conclusion is estimated on the following page.

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(\$ 49,728) \$12,060,272 (Say) \$12,060,000 \$ 7,560,000 \$ 4,550,000 Completed Homes Less Infrastructure Finished Lots Fotal Value

PLANNING AREA 2-R ("MONTELLANO")

\$1,000,000 price range. There have been 6 recorded transactions, 8 homes nearing completion, 3 This planning area consists of 61 lots, which have a typical size of 7,500 square feet and is owned by Lyon Homes. The development, Montellano, has been successful with the sale prices in the models, 3 lots for parking, 28 lots under construction with single-family homes, and 13 finished lots.

Existing Home Valuation

There have been 2 recorded transactions for Plan 1 which ranged from \$876,744 to \$926,590 with an average price of \$901,667 and a median price of \$901,667. I have concluded at \$900,000 for this model.

2 units x \$900,000/unit = \$1,800,000

There have been 3 recorded transactions for Plan 2 which ranged from \$889,292 to \$913,750 with an average price of \$902,137 and a modian price of \$903,370. I have concluded at \$910,000 for this model.

3 units x \$910,000 = \$2,730,000

There has been 1 recorded transaction for Plan 3 which was at \$860,550. I have concluded at \$860,000 for this model.

6 units x \$860,000 = \$5,160,000

The total value for the homes and model complex is \$9,690,000.

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Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete.

The sales that are most belpful have been summarized in chart form as Residential Lot Sales (6000+SF) and placed in the Addenda of this report. Data No. 7 represents the subject sale, while Data No. 6 is also located in the Talega development. Data No. 20 is also helpful and is a current escrow within Village 3 of the subject development.

After taking the above into consideration, I have concluded at a finished lot value of \$300,000. This calculates as follows:

44 lots x \$300,000/lot = \$13,200,000

Cost to Complete to a Finished Lot

I have reviewed the remaining backbone costs in frastructure for the development. The allocated cost for the remaining in frastructure costs is estimated at \$518,436.

The results of the above analysis are detailed below.

odels \$ 9,690,000	\$ 13,200,000	sts (\$_518,436)		(Say) \$22,370,000
Completed Homes/Models	Finished Lot Value	Less Infrastructure Costs	"As Is" Value	

Final Value Conclusion

After taking into consideration the remaining in-tract costs and backbone infrastructure costs, the final value conclusion is estimated to be \$18,475,000.

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PLANNING AREA 3-G

This planning area consists of 38 lots, which have a typical lot size of 5,000 square feet. The lots are considered to be in a finished lot condition. The model home complex, located on 3 lots, is under construction.

Finished Lot Value

In valuing the subject lots, a finished lot value will be determined followed by a deduction for the remaining costs to complete.

The sales that are most helpful have been summarized in chart form as Residential Lot Sales (4000 to 6000 SF) and placed in the Addenda of this report. Data No. 32 represents the subject sale, while Data Nos. 46 and 47 are pending transactions located in the subject development.

After taking the above into consideration, I have concluded at a finished lot value of \$220,000. This calculates as follows:

38 lots x \$220,000/lot = \$8,360,000

Cost to Complete to a Finished Lot

While the lots are considered to be in a finished lot condition there remains backbone infrastructure that is allocated to this planning area. The allocated costs for the remaining infrastructure are estimated at \$2,168,826.

Final Value Conclusion

The final value conclusion is reported as follows:

Finished Lot Value	\$8,360,000
Less Infrastructure Allocation	(2,168,826)
Total Value	\$6,191,174
Per Lot Value	\$ 162.926

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Of the 38 lots, 3 are classified Developed Property (permits obtained) and are allocated a value of \$488,775 (\$162,926 x 3 lots). The remaining lots are classified Near Term Property with a value of \$5,702,399.

OTHER LANDS

Business Park 1-Kindercare (APN 688-291-017) is a 1.474-acre parcel located in the Business Park portion of Taloga. It is a finished lot with a new building that resold to Kindercare. The land is valued based on other comparable sales as well as the subject sale. Data Nos. 7 through 9 and 11 are also located in the Talega Business Park. These sold between \$9.00 and \$10.12 per square foot. The more recent transaction is in the \$11.50 per square foot range. The subject sold on the basis of \$13.50 per square foot and is considered to be a fair market value as supported by the sales. This calculates as follows:

$64,207 \text{ sf} (1.474 \text{ acs}) \times \$13.50 \text{ psf} = \$866,79517 \text{ (say) } \$867,000$

A new building consisting of 9,966 square feet has been constructed. The replacement cost of the improvements is as follows:

			\$1,096,600	328,980	\$1,425,580	60	867,000	\$2,292,580	\$2,292,500
\$298,980	697,620	100,000							(Say)
Direct Costs: Building Shell (9,966 sf x \$30.00 psf)	Interior Improvements (9,966 x \$70.00 psf)	Site Improvements	Total Direct Costs:	Indirect Costs (30% of Direct Costs)	Total Direct and Indirect Costs	Less Depreciation	Plus Land Value	Total Replacement Cost	

The above is classified as Developed Property.

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Planning Area 2-O and Business Park 9 are two planning areas acquired by BRE Properties for the development of apartment projects. Planning Area 2-O is currently under construction with apartments with Business Park 9 currently mass graded. I have considered the subject transactions as well as costs expended on site improvements. No value was attributed to the partially completed improvements.

The sales considered were the attached product, which included the subject transactions.

Planning Area 2-0

\$12,600,000	(<u>30,138</u>) \$13,569,862	(Say) \$13,570,000
252 units x \$50,000 per unit Plus on site improvements	Less Infrastructure attributed to Planning Area Total Planning Area 2.0	

This is classified as Developed Property.

Planning Area BP-9

\$5,500,000	(550,883)	\$4,949,117	\$4,950,000
110 units x \$50,000 per unit	Less infrastructure attributed to Planning Area BP-9	Total Planning Area BP-9	(Say)

This is classified as Near Term Property.

Planning Area 2-N is an affordable housing apartment building consisting of 186 units. This project is under construction. While no value will be attributed to the partially completed improvements, a value will be attributed to the site improvements and tax credits that are available as a result of the restriction of affordable housing on the site. A total of \$1,877,000 has been spent on site work (mise. structures, site electrical, water, sewer, storm drain, paving, erosion control, fine grading and soil treatment).

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Business Park 2A-Ewing Ownership (Lot No. 3, Tract No. 15917) is a .93-acre parcel that is located in the Business Park portion of Talega. It is a rough-graded pad that was sold in September 2000 for \$410,000 (Data No. 11). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7 through 10 are also located in the Talega Business Park, but are older sales. They sold between \$9.00 and \$9.88 per square foot. Data Nos. 15 through 20 are current escrows in Village 2 of the Talega Business Park. These are selling at \$11.50 per square foot. The subject sold on the basis of \$10.12 per square foot and is considered to be fair market value as supported by the sales. This calculates as follows:

40,511 sf (.93 acs) x \$11.50 psf = \$465,876 (Say) \$466,000

The above is classified as Near Term Property.

Business Park 4A-RecodoOwnership is a 4.3-acre parcel that is located in Village 1 of the Business Park portion of Talega. It is a rough-graded pad that was sold in April 2002 for \$1,722,240 (Data No. 21). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7 through 10 are also located in the Talega Business Park, but are older sales. They sold between \$9.00 and \$9.88 per square foot. Data Nos. 15 through 20 are current escrows in Village 2 of the Talega Business Park. These are selling at \$11.50 per square foot. The subject sold on the basis of \$9.20 per square foot and is considered to be fair market value as supported by the sales. This calculates as follows:

.87,308 sf (4.3 acs) x \$9.20 psf = \$1,723,234 (Say) \$1,725,000

The above is classified as Near Term Property.

Business Park 7-Calibar Ownership (Lot No. 43, Tract No. 16253) is a 2.28-acre parcel that is located in the Business Park portion of Talega. It is a rough-graded pad that was sold in June 2002 for \$1,500,000 (Data No. 22). The property is valued based on other comparable sales as well as the subject sale. Data Nos. 7 through 10 are also located in the Talega Business Park, but are older sales.

Summary Appraisal Report - Complete Appraisal
Community Facilities District No. 90-2
(Tallega Froject)
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(Capieron Unified School District
Brace W Hull & Associates, Inc.

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They sold between \$9.00 and \$9.88 per square foot. Data Nos. 15 through 20 are current escrows in Village 2 of the Talega Business Park. These are selling at \$11.50 pcr square foot. The subject sold on the basis of \$10.50 per square foot and is considered to be fair market value as supported by the sales. This calculates as follows:

42, 876 sf (3.28 acs) x \$10.50 psf = \$1,500,198 (Say) \$1,500,000

The above is classified as Near Term Property.

Town Center Planning Areas A and B sold to Standard Pacific in March 2002. The subject sales are reported as Data Nos. 18 and 19. The price per finished lot was estimated at S99,000 and \$129,000, while the sale was sold on the basis of a mass graded pad. The seller is still completing grading to satisfy the sales transaction (approximately one half of the site graded). I have considered the subject sale as well as comparable data (Attached Product). Data Nos. 30 and 31 represent current escrows of Attached Product in Village 3 of the subject development. I have concluded at \$112,000 per finished lot for the subject.

\$33,824,000 (13,581,312) (11,911,027)	\$ 8,331,661 (Say) \$ 8,330,000
302 lots x \$112,000 per lot Less Costs to Complete to a Finished Lot Condition Less Infrastructure Cost Altributed to Town Center	Estimated Value

The above is classified as Undeveloped Property.

"Approximately \$1,580,000 of finished for costs has been spent to date. The budget for finished costs is \$7,985,070 for TCA and \$7,176,312 for TCB, a total of \$15,161,131. Deduction of \$1,580,000 results in costs to

complete of \$13,581,312.
Summary Appraisal Report - Complete Appraisal
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SECTION I – SUMMARY

Areas 2-M, P, Q, R, S and V) and completed buildings in the business Park (portion of BP-1). A Section I involved a number of Planning Areas. The condition of these Planning Areas ranges from currently under site construction (Town Center) to completed homes and finished lots (Planning summary of the value conclusions is as follows:

	4		Type of Value	
Pianone Area	Developer / Owner	Near Term	Developed	Undeveloped
2-M & P	BHC Residential LLC		\$ 11,710,000	
2-N	Jamboree Housing	\$ 1,056,032	\$ 3,988,968	
2-O & BP-9	BRE Properties	\$ 4,950,000	\$ 13,570,000	
2-0	Standard Pacific		\$ 22,060,000	
2-R	William Lyon		\$ 18,475,000	
2-S	BHC Residential LLC		\$ 12,060,000	
2-V	Standard Pacific		\$ 1,530,000	
3-G	Tava (Citation Homes)	\$ 5,702,397	\$ 488,777	
BP-1 (portion)	Kindercare		\$ 2,292,500	
BP-2A (portion)	Ewing Irrigation	\$ 466,000		
BP-4A	Recodo	\$ 1,725,000		
BP-7	Calibar	\$ 1,500,000		
Town Center	Standard Pacific			\$8,330,000
Total		\$15,399,429	\$ 90,070,245	\$8,330,000

The Aggregate Value for Section I is \$113,799,674.

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(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

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MASTER DEVELOPER OWNED PARCELS **EXCLUDING AGE RESTRICTED LANDS** SECTION II

This is the valuation of the Talega Associates, LLC ownership excluding Planning Area 2-C (Age Restricted Lands). Approximately 66 acres of land is excluded from the Rate and Method of Apportionment of the special tax for the Capistrano Unified School District. As a result the collateral for the bond issue does not include the age restricted housing. Therefore, it is excluded from the value for CUSD 90-2.

This analysis was defined earlier in the report. First, a retail value for each of the subject planning prepared by Empire Economics. The remaining costs to develop the property to a "salable condition" will be considered. Finally, the resulting cash flows will be discounted at an appropriate due to the developer. The analysis of the above revenues and costs results in a present value for the areas needs to be estimated. Next, an absorption period will be determined based on a report rate, which considers the 1) time value of money; 2) risks associated with the project; and 3) profit In valuing the master developer owned properties a DCF will be used due to the single ownership. subject property.

RETAIL VALUE

component of the project has the majority of categories. I have considered four land use categories The Talega Project has been designated into several different land use categories. The residential this analysis. These are attached, small lot detached, conventional, and luxury single-family residence. In addition, there is a Business Park/Commercial use.

A brief discussion of each residential land use category and resulting values are as follows.

Summary Appraisal Repurt - Complete Appraisal Community Facilities District No. 90-2 (Tolego Project) Coptument Lifed School District Brace W. Hull & Associates, Inc.

Attached Land Use

The project has two planning areas for this category. A total of 171 units have been proposed for this land use category on a total of 16.3 acres. Planning areas will be in Villages 3 and 6 of the subject project. Density for these planning areas ranges from 7.9 to 11.6 dwelling units per acre.

ASSUAPTIONS WATRLY
Talega
CFD 18-2 Series 2002

The data considered in this analysis is listed as Attached Land Sales. The conclusion for these lots is \$140,000 to \$175,000 per finished lot. The difference attributed to the location within the project.

Small Lot Detached Land Use

There are ten planning areas in the remaining lands for the Talega masterplanned development. A total of 850 units are planned on 185.70 net acres. These are proposed to occur in Villages 3, 4 and 5 of the subject project. The lot size for this land use category ranges from 2,000 to 4,000 square feet.

The data considered in this analysis is listed as Residential Lot Sales (2000 to 4000 sf). The conclusion for these lots is estimated at \$135,000 to \$275,000 per finished lot.

Conventional Single-Family Land Use

This category consists of lots in the 4,000 to 6,000 square foot range with a total of 299 units proposed on 84.5 net acres. These planning areas are proposed to be in Villages 3,4 and 6. The data considered in this analysis is listed as Residential Lots Sales (4000-6000 SF). The conclusion for these lots is estimated at \$250,000 to \$325,000 per finished lot.

Luxury Single-Family Land Use

This category consists of planning areas that exceed 6000 square feet. These are Planning Areas 4-E, 5-C, and 4-A. Outstanding ocean views are available from portions of these planning areas (Planning Area 4). There are a total of 160 lots on 66.7 acres.

The data considered in this analysis is listed as Residential Lot Sales (6000+ SF). The conclusion for these lots is estimated at \$400,000 to \$475,000 per unit.

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Bruce W Hull, MAI

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\$139.154

CONCLUSIONS

Present Value of the Property (millions).

688

Town Center Land Use

There are two lots that are designated as commercial but are listed as Business Park 5 and Business Park 3-В. These are located at the southwest corner of Avenida Taloga and Avenida Vista Нетпоѕа and total 6.5 acres.

Business Park Land Use

The Business Park totals 22.03 acres. Of that 7.5 acres are located in Village 3, which is undeveloped lands. The balance of the Business Park (14.53 acres) is finished lots. BP-3B and BP-5 are commercial sites tocated in the Village Center. There are four offers pending at \$18.00 per square foot for this site. The data considered in this analysis is listed as Market Data --Commercial/Business. I have considered the subject sales as well as comparable data in arriving at values for these parcels.

SUMMARY - RETAIL VALUE

The master developer owned parcels are listed on the facing page.

OTHER REVENUE

be distributed for facilities. These monies are anticipated to be disbursed within the first year. The Margarita Water District CFD 99-01. There is \$5,600,000 currently in escrow with SMWD 99-01 to monies are to be disbursed according to a covenant between SMWD 99-1 and Talega Associates, There are two other sources of revenue. These include monies currently in escrow with Santa

Agreement essentially cites the obligation of Talega in the construction of the Vista Hermosa Interchange. Talega Associates, LLC "fair share" of the interchange is \$4,482,000. While this is the fair share, Talega Associates, LLC agreed to "front" the obligation of the costs (\$12,578,683). As part of this Agreement a major landowner (Marblehead) has agreed to pay Talega Associates, LLC \$5,880,000 when they have approvals for their project. At the present time Marblehead is attempting In addition, there is an agreement for funding of Vista Hernosa Interchange ("Agreement"). This

Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2

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to gain approvals through the Coastal Commission. I have estimated that these monies would be reimbursed, but have discounted this amount separate form the cash flow.

ABSORPTION PERIOD

Empire Economics prepared an absorption period in which the absorption related to the end user (in nost cases this would refer to the homebuyer; in the case of the commercial site, when the building was complete and leases or occupied by owner/user). This report relates to 3,400+ units while my discounted cash flow applies only to the lots owned by the master developer (1,508). In the result, I have taken into account that a merchant builder would acquire the lands approximately one year prior to the homes being built, sold and closing escrow. I have also considered the transactions that have occurred and were under contract over the last 3-1/4 years. The first land transaction In determining an absorption period for the subject project, I have reviewed a report prepared by Empire Economics (August 2002) on the subject project for Capistrano Unified School District. discounted cash flow analysis I considered when the lands were sold to a merchant builder. As a recorded in December 1998. There have been 25 land transactions totaling 2,453 units since that ime frame. This represents an annual absorption of 600± lots.

APPRECIATION/INFLATION RATES

this report was prepared on an annual basis and had housing price, housing price change, size of 2001) indicate a slower appreciate rate. I have considered a 4% factor for appreciation in the case of Economics for the Santa Margarita Water District, which dates back to 1985. It is my understanding The most interesting category for my analysis is the Land Residual category. The table indicates a time period ranging from 1985 to 1997. This period included several "boom to bust" cycles for the category. In addition I have considered the price appreciation of housing as measured by Data Quick. Their last 3 years have ranged from 10 to over 20%. The most recent statistics (January have reviewed the report, "Factors Underlying the Residual Value of Land", prepared by Empire nome, construction index square footage, total construction costs, land residual, and ratio land/total. real estate market. Over the 12-year period I calculated a 4.92% compound rate for the land residual he subject cash flow.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

Capistrano Unified School District Bruce W. Hull & Associates, Inc.

Nummary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2 (Talega Praject)

Zapistrano Unified School District Bruce W. Hull & Associates, Inc.

CONSTRUCTION COSTS

I have consulted with a civil engineer, Gary Laughlin, as well as reviewed data from Engineering New Record (www.enr.com). Over a 6-year period construction costs for the Long Beach-L.A. area have increased by 4.0%. I have considered 4.0% for the subject cash flow.

REMAINING COST OF DEVELOPMENT

finished lot cost that will bring the residential lots to a finished lot condition.

The remaining cost of development includes the remaining backbone infrastructure as well as the

Correspondence received from RBF Consulting, dated September 29, 2002, is included in the Addenda of this report. This letter relates to the Talega Master Development Cost Budget Summary and states the following.

"RBF Consulting has been retained by Talega Associates, LLC to assist in the preparation of the Budget Summary for the Talega Development. Our involvement has been in preparing quantities summary, which includes linear footage takeoffs of Talega's infrastructure improvements and grading estimates. We believe that the Budget Summary with assistance from other Talega's consultants is generally consistent and comparable to actual construction

The in-tract costs have been prepared by The Moote Group, a copy of which was provided for my review. The Moote Group has prepared costs on the majority of the planning areas. In some cases, I have taken the average cost for the land use where a specific planning area had not been estimated (e.g. five planning areas for which costs have been prepared; for the one planning area for which costs had been prepared). The detailed cost estimates prepared by The Moote Group have been retained in my files. (I have adjusted these costs upwards by 15% due to the date on which these estimates have been made.)

An exhibit indicating the total backbone costs, total general development cost budget, total master developer's budget, backbone costs completed, general development costs completed, general development costs deleted from budget, and adjusted development budget is included on the facing page.

TALEGA VALLEY

ŕ		DI	EVELOPMENT CO	ST SUMMARY			
Davelopment Village	Total Backbone Cost Budget (a)	Total General Development Cost Budget (c) (d)	Total Development Budget	Backbone Costs Completed as of 8/31/02	General Development Costs Completed as of 8/31/02 (f)	General Development Costs Deteted from Budget	Adjusted Development Budget as of 8/31/02
Village 2 Planning Area 2-W Village 3 - Talega Village 4 - Talega	44,197,413 1,157,773 (b 64,005,906 (b 27,509,192	1,536,465 708,821	45,733,878 1,864,594 84,773,965 46,925,976	(44.197,413) (1,147,526) ((36,422,364) ((702,337)		0 0 (g) 0	591,384 282,302 35,577,157 34,280,364
Village 5 - Talega	28,547,772	25,258,450	53,806,222	(627,588)	(15,536,486)	(1,100,000) (g)	36,542,148
Viltage 6 - Talega	6,354,628 (b	3,929,092	10,283,720	(251,318) (e) (2,416,787)	0	7,615,615
Village 6 - Talega	5,413,201_ (b	3,347,004	8,760,206	(214,085)	e) (2,058,744)	0	6,487,376
(16,1 Acres of Age Res.) Total Villege 6	11,787,829	7,276,097	19,043,926	(465,403)	(4,475,531)	0	14,102,992
Town Center (Talega) Business Park	3,902,119 (b 7,327,468) 1,351 <i>,</i> 275 0	5,253,394 7,327,468	(2,124,845) (6,070,343)	(831,170) 0	0	2,297,379 1,257,125
(Others-Commercial) Business Park - Talega	6,143,800	5,591,559	12,035,359	(5,089,749)	(3,623,901)	0	3,321,709
Total Business Park	13,471,268	5,891,559	19,362,627	(11,160,092)	(3,623,901)		4,578,834
Total	\$194,559,272	\$82,205,509	\$276,784,781	(\$96,847,568)	(\$50,564,654)	(\$1,100,000)	\$128,252,560

EQUINOTES:

- INCITES:
 a) includes cost of backbone facilities specific to each development village which are necessary in order to produce.
- b) In development villages that contained more then one property owner, the Total Backbons Costs were allocated to such property owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross.
- (c) Includes General Mester Developer Costs and Development Agreement offsite such as, entitlement processing, park fees fire station, environmental mitigation, visita Hermona Interchange, La Pata extension, project overhead costs and master marketing costs. These costs exclude costs related to fand acquisition, property taxes and finance costs.
- (d) Total General Development Costs were elecated emong development villages based on the relative adjusted gross acreage of the development villages in relation to the local adjusted gross acreage of all development villages. Furthermore, in development villages, furthermore, in development villages that contained more than one property owner, the General Development Costs of the development village as detarmined in the preceding sentence was elecated to each property owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross acreage of all planning areas with the particular development village.
- (e) This column represents the Backbone Costs that have been expended or completed as of 8/31/02. Since certain development vitage contain more than one property owner, the costs expended to date were allocated to each property owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross acreage of all planning areas within the particular development vitage.
- (f) This column represents the General Development Costs that have been expended or completed as of 8/31/02. These cost were allocated in the same manner described in Foolnote (d).
- g) These costs are for the construction of recreation buildings. It is assumed this cost is unique to the Talega development and the finished lot comparatives would not reflect this type of cost, therefore the cost of the recreation buildings have been deleted from the development budget to provide a better matching of costs to revenue.

LOAN DRAW

I have assumed that the master developer would fund the entire development and repay the loan from the proceeds of the sales of the lots. I have assumed an 8.0% interest rate and an 85% repayment of revenues

Margarita Water District CFD No. 99-1 special taxes, and the subject CFD special tax is located in A schedule relating to the master developer obligation for ad valorem property taxes, Santa the Addenda

ONE PERCENT BUILDER AD FEE

The master developer is entitled to 1% of the completed home sales price as a marketing fee. I have calculated this by using average prices for the different tracts. Please refer to the schedule in the Addenda.

DISCOUNT RATE

abstract a discount rate from a previous land development project, it in all probability would not be relevant in today's marketplace. That is, the historical perspective of a master planned project that began 5 to 10 years ago and sold out last year would, in my opinion, not be relevant. Market The discount rate involves several factors, which include the time value of money, the variety and in developing the project. It should be noted that discount rates (particularly in the case of land development projects) are not easily derived from real estate market data. Indeed, if one could is more important than what has occurred in the past. The appraiser needs to make subjective decisions on the future profit expectations during the anticipated time frame for the income stream magnitude of different risks associated with the project, and profit that any developer would expect conditions, as well as market expectations, change and as a result, what the market anticipates today generated by such a large project.

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(January 1989; Page 85) entitled Discount Rate Derivation. The author (Robert Mason) states "over treasury bond is utilized for this analysis. As of the September 2002 benchmark 10-year bill was Another perspective on discount rates appeared in an article written for The Appraisal Journal times the safe rate, while vacant or subdivision lands have had a discount rate between 3 and 5 time Assume for the moment that the lender is the U.S. Government in which a benchmark 10-year quoted at less than 4.0%. I will assume this U.S. treasury rate is the "safe rate". The major elements the past decade improved real estate investments have had a discount rate between 1.25 and 2.5 the safe rate". The safe rate is the compensation paid to a lender or investor for the use of money. of a discount rate are risk rate and safe rate. Based on the preceding, a discount rate would be "builtup" under the following variables.

- As previously discussed a safe rate of 4.0%.
 Risks associated not only with this project, but a rate that reflects the burdens and benefits of real estate investment.

Capital markets for financing any type of land development are virtually non-existent; and real estate builder buying fully entitled finished lots who is building a housing development of say 50 to 100 residential values are at best stable. I have observed in the marketplace that the typical merchant houses (the total in a given tract) expects a minimum 10 to 12% profit based on the sales price of the house. Utilizing a 12% factor, the following discount rate is "built-up".

4.0%	12.0%	16.1%
ì	•	•
Safe Rate	Risk/Profit	Total

Although the above analysis is helpful in determining an appropriate discount rate, the market Note that 16.0% is only 4 times the safe rate. A factor of 5 would equate to a 20% discount rate. perspective is as important as the theoretical build-up of the rate.

California for its opinion regarding the appropriate discount rates for discounting cash flows to a Economic Research Associate (ERA) was asked by the Metropolitan Water District of Southern

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present value for large landholdings planned for development. Their conclusions were drawn from their own experience in feasibility analysis and valuation of planned community development projects over the past 15 years including several current assignments. ERA states "The appropriate discount rate must reflect the rate of return that a typical buyer expects. Discount rates vary depending upon the cash flow methodology and market expectation as to the following.

- The availability and cost of capital.
- The degree of uncertainty in cost estimates.
- The degree of uncertainty in market forecasts.
- The overall perceived risk in the development.
- The expected rate of appreciation in product prices, in relation to the inflation rates 1) The availability and cost of capital.

 2) The degree of uncertainty in cost estimates.
 1) The degree of uncertainty in market forecasts.
 2) The degree of uncertainty in entitlements.
 3) The overall perceived risk in the developmen 4) The expected rate of appreciation in produc employed in the cash flow forecast

market's general state, and the works themselves. In a way, this is similar to what must be However, I point it out for two reasons: 1) the \$72.8 million would take time to sell off; and 2) the judge indicated that the rate must reflect what the history and prospects of the sales are, the art considered in determining a discount rate for this project. That is, the appraiser must consider the would be for the artist's works. The sum of the individual values at the time of the artist's death was estimated at \$72.8 million. A dispute occurred between the IRS, who discounted the total between 10 and 37%, and the expert for the estate who proposed a 75% discount. The judge stated that the "Frustrated by the lack of a reliable expert opinion" the judge valued the art at a 50% discount. real estate market in Orange County, the general real estate market as a whole, and the product itself. An interesting article in the April 16, 1992 Wall Street Journal dealt with the concept of a discount rate. The article, which dealt with an artist's estate, discussed what an appropriate discount rate opinion of the estate's expert "defies common sense", yet the IRS' opinion was also unjustified. Obviously, this is not considered as a reliable discount rate to be considered in the subject case. It is worth noting that even the IRS proposed a 10 to 37% discount rate. A more recent article in The Wall Street Journal (Donald's Wealth Estimates Trump Reality January 19, 2000) also addressed discount rates. In this article, which addressed Donald Trump's wealth, the

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years away and may be reduced by a slowdown or failure to finish the building on time (risk and author notes "but conservative accounting would require Mr. Trump to discount by 20 to 30%, say real estate investors (the \$250 million he expects from Trump World Towers), as the money is three time).

their "target return". They also did not want to divulge specific pro-forma numbers, but did indicate Companies, American Beauty and Genstar Development Company. They have been involved in the development of master planned residential communities that exceed 3,000 units. They have been successful in the last decade in the development of several large master planned residential communities. In these interviews, they confirmed that risk, location, and a host of factors influence In addition, interviews with developers who are considered to focus on the development of master These include representatives from The McMillin that they would be targeting a 20 to 25% return. planned communities were conducted.

project has sold over 2,400 lots since sales to merchant builders began in December 1998 (600 lots annual absorption). I have also taken into account the number of units and the anticipated In determining an appropriate discount rate, I have taken into consideration the fact that the subject absorption. Consideration is also given to the environmental permits received.

I have concluded at a discount rate of 22.5% for the subject project.

DISCOUNTED CASH FLOW CONCLUSION

The preceding information has been imputed into a cash flow analysis, which is located in the Addenda of this report. I have concluded at a discounted eash flow value of \$139,154,000 for the subject project based on this analysis.

This relates to funds that are owed to Talega for another property owner's fair share of constructing he Vista Hermosa interchange. While the property owner is attempting to receive approvals for I have valued separate from the discounted cash flow a reimbursement in the amount of \$5,880,000.

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SECTION II - SUMMARY

Planning Area 3-G). The discounted cash flow indicated a value of \$139,154,000. Separately, I This section involved Talega Associates, LLC ownership. The valuation of Talega Associates, LLC ownership excluded all Age Restricted lands. These include Villages 3, 4, 5 and 6 (excluding valued a future reimbursement at \$775,000. The total of the two is \$139,929,000; (Say)

\$139,930,000.

\$5,880,000 x .1316912 - \$774,337 (Say) \$775,000

discount and have assumed that the monies received in the 5th Period (5 years). This calculates as

follows:

¹² Present worth of 1 factor; 50%; 5 years.
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their project, this is considered to have a higher risk than the subject "DCF". I have applied a 50%

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SECTION III GAP PROPERTIES

4/23/02 3/29/02 5/10/02

578,500 962,000 821,000

Sold Sold

89.27% 54.88% 67.99%

5 15 15

This section relates to a value for the individual parcels that recently sold. In estimating such a value, I have relied on the subject sales as well as other sales that have occurred within Talega. A parcel was classified as a "gap property" if the sales price was less than 90% of the Assessed Value. Following are the lot and tract number of each individually owned property listed by project. Also included are the closing dates and sales price.

247	1,1	247		3	OTATIO	10:00	
	/47		241	,	0012	TAGE.	DATE
Monterey							
-	70105534	13683	¥	33.84%	Sold	561,000	2/30/00
8	70105535	13683	32	67.02%	Sold	572,000	4/6/00
e	70105536	13683	æ	84.96%	Sold	589,048	4/10/00
4	70105537	13683	8	79.66%	٠,	599,463	4/7/00
5	70105538	13683	67	83.20%	Sold	588,450	3/30/00
ဖ	70105539	13683	8	88.65%	Sold	586,835	4/5/00
7	70105541	13683	2	86.58%	Sold	578,000	7/27/00
80	70105548	13683	72	81.38%		569,182	3/10/00
o	70105547	13683	92	80.33%	Sold	533,600	3/8/01
10	70105549	13683	78	53.51%		583,059	2/23/01
1	70105550	13683	62	63.26%		751,600	5/3/01
12	70105551	13683	8	62.30%	Sog	686,050	3/19/01
13	70105552	13683	8	82.49%	Sold	611,950	3/28/01
4	70105553	13683	83	71.71%	Sold	681,350	6/1/01
15	70105556	13683	82	88.28%	Sold	561,558	2/14/01
16	70105609	13683	4	85.26%	Sold	549,041	8/25/00
17	70105613	13683	48	62.05%	Sold	452,000	9/2/00
18	70105624	13683	39	81.43%	Sod	610,000	12/22/90
19	70105627	13683	62	81.40%	Sold	510,000	11/10/00
20	70105628	13683	B	88.81%	Sold	485,000	10/30/00
21	70105629	13683	쫇	87.47%	Sold	530,500	5/1/01
Pacifica							
-	70105416	13684	7	58.59%		620,500	9/25/00
8	70105423	13664	유	88.89%	Sold	577,000	1/31/02
e	70105424	13684	=	81.18%	Sold	673,415	3/6/02

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San Rafael	2012102	13686	,	RF 03%	Ţ.	708 834	7/14/00
- 2			27	87.01%	Sold	586,516	10/16/00
lame							
,	93373255	13878	-	84.24%	Sod	496,830	11/10/00
8	93373258	13878	-	22.69%	Sold	376,915	11/14/00
က	93373262	13878	τ-	74.10%	Sold	406,087	1/22/01
4	93373263	13878	-	82.68%	Sod	417,005	1/23/01
ĸ	93373264	13878	-	67.54%	Sold	439,125	1/24/01
တ	93373265	13878	•	42.87%	Sold	422,000	1/22/01
7	93373266	13878	-	73.79%	Sold	458,940	1/24/01
6 0	93373267	13878	-	72.46%	Sold	460,325	1/26/01
o	93373268	13878	-	88.90%	Sold	450,667	1/26/01
ō	93373269	13878	-	88.57%	Sold	453,880	1/30/01
11	93373270	13878	-	85.65%	Sold	453,013	1/30/01
12	93373271	13878	-	70.58%	Sold	453,320	1/31/01
£	93373272	13878	-	72.30%	Sold	345,965	3/16/01
4	93373286	13878	7	25.81%	Sold	322,740	11/20/00
15	93373287	13878	8	41.08%	Sold	335,520	11/21/00
16	93373290	13878	7	81.60%	Sold	340,090	11/22/00
11	93373296	13878	8	40.29%	Sold	331,505	11/29/00
8	93373297	13878	9	43.00%	Sold	430,340	3/21/01
6	93373299	13878	က	82.37%	Sold	354,112	3/28/01
ଯ	93373302	13878	က	88.14%	Sold	343,745	4/25/01
12	93373305	13878	က	52.04%	Sold	360,315	4/27/01
8	93373318	13878	4	73.29%	Sold	514,855	7/5/01
23	93373319	13878	4	71.85%	Sold	515,300	1/6/01
54	93373320	13878	4	87.77%	Sold	518,490	7/19/01
52	93373321	13878	4	80.42%	DloS S	503,660	2/28/02
56	93373322	13878	4	47.72%	Sold	527,290	7/18/01
27	93373323	13878	4	55.99%	Sold	526,190	7/27/01
28	93373324	13878	4	71.60%	Sold	512,010	1/25/02
83	93373326	13878	4	16.96%	Sold	533,735	7/25/01
93	93373328	_	4	64.69%	Sold	455,460	12/28/01
3	93373331	13878	4	66.34%	Sold	444,160	4/4/01
32	93373333	13878	4	77.67%	Sold	444,125	3/30/01
33	93373336	13878	10	56.84%	Sold	524,300	2/21/02
ಸ	93373338	13878	10	73.67%	Sold	528,170	977/01
જ	93373339	13878	S	81.07%	Sold	524,670	8/30/01

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7/12/00 8/4/00 6/19/01 5/11/01

512,651 376,469 405,909 482,345

B & B B

82.10% 50.29% 35.15% 30.06%

~ B & B

9/25/00 9/26/00 10/10/00 10/19/00 11/14/00 11/16

242,075 262,973 245,500 238,005 257,390 264,825 269,850 283,975 265,945 255,596 235,595 235,847 235,847 235,847 236,248 235,847 236,248 237,847 237,84

86.90% 88.82% 86.79% 89.74% 89.74% 89.74% 89.74% 89.41% 42.16% 89.81% 71.86% 85.45% 85.45% 85.45% 85.45% 85.45% 85.45%

93373147 13894 93373162 13894 93373161 13894 93373171 13894 93373177 13894 93373181 13894 93373182 13894 93373210 13894 93373210 13894 93373240 13894 93373240 13894

8/10/01 8/21/01 8/31/01 8/31/01 8/31/01 10/25/01 10/1/01

747,850 910,582 777,620 929,860 952,803 890,947 890,947 890,947 890,947

86.76% 89.02% 83.58% 82.35% 89.50% 71.44% 79.75%

0 - 2 5 4 9 7 8 9

70119310 13880 70119311 13880 70119312 13880 70119313 13880 70119314 13880 70119318 13880 70119319 13880

8 4 8 8 8 5 5 8 8 8

2/23/00 5/19/00 9/21/00 10/17/00 12/18/00 12/21/00 12/21/00 12/26/00 1/3/01 6/29/01 6/29/01

70106115 15756 70106121 15756 70106129 15756 70106137 15756 70108102 15756 70108104 15756 70108107 15756 70108113 15756 70108113 15756

492,425 639,990 482,900 533,785 585,992

66.14% 85.02% 72.42% 74.18%

556,166 495,902 464,973 499,445 528,834 496,633

87.00% 74.35% 84.85% 86.54% 82.23% 87.20% 54.89%

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4/9/02	3/28/02	4/25/02	10/25/01	3/28/02		11/30/00		3/1/02	2/28/02	2/27/02	2/28/02	3/4/02	3/15/02	4/12/02	4/29/02	3/12/02	3/11/02	3/4/02	3/8/02	3/7/02	3/5/02	3/11/02	2/25/02	2/28/02	2/22/02	2/21/02	2/19/02	6/26/02	7/11/02	7/16/02	6/21/03	6/14/02	6/17/02	6/18/02	6/19/02	6/20/02	6/27/02	7/11/02		6/28/02	7/16/02	7/3/02	
491,870	604,990	555,990	550,070	530,098		443,490		474,351	382,519	397,990	404,652	426,040	409,789	387,990	410,990	416,990	415,290	481,050	498,322	473,945	383,990	543,947	427,765	403,990	423,990	440,990	456,995	474,789	477,578	511,429	452,369	483,290	454,860	458,831	474,191	458,143	500,296	424,990		707,559	696 44B	677,738	
	Sold	Sold	Sold	Sold		Sold		Sold	Pos.	Sold	Sold Sold	Sold	8.43% Sold	8.38% Sold	7.83% Sold	8.85% Sold	8.28% Sold	8.80% Sold	8.72% Sold	8.44% Sold	8.74% Sold	8.00% Sold	9.42% Sold		plos:																		
64.93%	\$2.86%	57.83%	75.44%	60.38%		82.48%		79.41% Sold	70.57% Sold	74.43% Sold	70.85% Sold	70.12% Sold	89.96% Sold	88.33% Sold	72.08% Sold	69.26% Sold	63.84% Sold	62:40% Sold	54.12% Sold	60.52% Sold	70.30% Sold	54.73% Sold	67.30% Sold	65.63% Sold	69.87% Sold	65.31% Sold	85.69% Sold	8.43%	8.38%	7.83%	8.85%	8.28%	8.80	8.729	8.44	8.749	8.00	9.429		19 17%			
137	135	돷	127	125		6		સ	67	8	89	2	7	22	2				• -	• •			_		8	ጃ	-	4	45	•	4		8		4	2	9			111			1
15798	15798	15798	15798	15798		15799		15953	15953	15953	15953	15953	15953	15953	15953	15953	15953	15953	15953	15853	15953	15953	15953	15953	15953	15953	15953	15954	15954	2585	15954	15954	15954	15954	15954	15954	15954	15954		15054	1505.4	15954	
	70113106	70113107		70113139		70110109 15799		70120131	70121128	70121129	70121130	70121131	70121132	70121133	70121134	70121135	70121136	70121137	70121138	70121139	70121140	70121141	70121142	70121143	70121144	70121145	70121148	70124421	70124422	70124423	70124424	70124425	70124426	70124427	70124428	70124429	70124430	70124431		70124304 15954	7012430F	70124306	
ıo	9	7	60	თ	200		Farraton Ridge	· -	2	e	4	IO.	9	7	80	on	9	=	12	13	4	15	16	17	18	19	20	24	23	23	24	25	56	22	28	53	30	31	of a classic	miraleste		N EO	

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SECTION IV - REPORTING OF ASSESSED VALUES

This section reports the Assessed Value for existing homeowners as well as for buildings that have been constructed. Following is a detailed list of these parcels.

6/28/02 6/28/02 7/30/02 7/19/02 3/14/02 3/14/02 3/18/02

744,351 684,990 693,672 787,513 712,894 756,340 713,444

20.08% 21.82% 21.55% 18.98% 53.81% 54.27% 62.11%

70124238 15955 70124240 15955 70124241 15955 70124241 15955 7012424 15955 7012424 15955 7012424 15955

15 17 18 19 20 22 22

8/12/02 8/12/02 8/21/02 8/21/02 8/21/02 8/22/02

889,292 913,750 926,590 876,744 860,550 903,370

26.11% 25.42% 25.06% 25.58% 26.06% 24.82%

3 2 2 2 2 2 4 4 5 5

Montellano

9/02 9/02 9/02 9/02

Sold Sold Sold

4 W ~

Business Park

8,035,000

160,168,380

Monterey 734 734 VALUE 1 70105501 13863 1 516,061 2 70105502 13883 3 516,061 3 70105503 13883 5 560,000 5 70105504 13883 5 512,145 6 70105505 13883 5 532,771 7 70105506 13883 6 532,771 8 70105506 13883 1 44,500 9 70105506 13883 1 44,500 10 70105511 13683 1 504,294 11 70105512 13683 1 504,294 12 70105514 13683 1 504,294 14 70105514 13683 1 669,237 15 70105516 13683 1 669,237 16 70105517 13683 1 703,042 17 70105522 13683 2	TEMS	APN	TRACT	101	ASSESSED
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Susmary Appraisal Report – Complete Appraisal
Community Facilities District No. 90-2
(Talego Project)
Capistrano Unified School District
Brace W. Hull & Associates, Inc.

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Summary Appraisal Report - Complete Appraisal
Community Facilities District No 90-2
(Tillings Proyed)
Capitrano Unified School District
Capitrano Unified School District
Brace W. Hull & Associates, Inc.

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Summary Appraisal Report – Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

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⁽Talega Project) Capistrano Unified School District Bruce W Hull & Associates, Inc.

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Summary Appraisal Report - Complete Appraisal	Community Facilities District No. 90-2	(Talega Project)	Constrang Unified School District

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Summary Appraisal Report - Complete Appraisal
Community Eacilities District No. 90-2
(Talgage Project District

APPRAISAL REPORT SUMMARY

SECTION I

I have estimated the values for the Merchant Builders utilizing the Sales Comparison Approach and have deducted the remaining costs to complete. The result of this analysis is \$113,799,674.

SECTION II

This section involved the Talega Associates, LLC ownership. This resulted in an estimated value of \$139,930,000.

SECTION III

This represents the individually owned properties occupied by homeowners. The total value indicated is \$160,168,380.

SECTION IV

This section represents the Assessed Values for existing homeowners and industrial buildings that have been completed. The total Assessed Value for these parcels is \$379,980,573. The preceding values are stated subject to the Assumptions and Limiting Conditions and Appraiser's Certification as of said date of value.

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2

(Talega Project) Capistrano Unified School District Bruce W. Hull & Associates, Inc.

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APPRAISER'S CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- 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.
- I have no present or prospective interest in the property that is the subject of this report and I have not personal interest or bias with respect to the parties involved. 3
- 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. 4.
- My analyses, opinions, and conclusions were developed, and this report has been prepared in approval of a loan.

This appraisal was not based on a requested minimum valuation, a specific valuation, or the

S.

I have made a personal inspection of the property that is the subject of this report. 7

conformity with the Uniform Standards of Professional Appraisal Practice.

- No one provided significant professional assistance to the person signing this report. ∞
- The reported analysis, opinions, and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. 6
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. 10.
- As of the date of this report, Bruce W. Hull, has completed the requirements of the continuing education program of the Appraisal Institute. Ξ.

State Certified General Real Estate Appraiser (AG004964) Bruce W. Hull, MAI

Summary Appraisal Report - Complete Appraisal Community Facilities District No. 90-2 (Talega Project) Capitaron Unified School District Brace W. Hull & Associates, Inc.

CORRESPONDENCE BY RBF CONSULTING DATED SEPTEMBER 27, 2002



September 27, 2002

JN 10-102464

Mr. Bruce Hull & ASSOCIATES 1056 East Meta, Suite 202 Ventura, California 93001

Talega Development - 2003 Cost Budget Summary Subject:

Dear Mr. Hull:

RBF Consulting has been retained by Talega Associates, LLC to assist in the preparation of the Budget Summary for the Talega Development. Our involvement has been in preparing quantities summary, which includes linear footage takeoffs of Talega's infrastructure improvements and grading estimates. We believe that the Budget Summary with assistance from other Talega's consultants is generally consistent and comparable to actual construction costs.

If you have any questions or comments, please feel free to call me at (949) 855-5798.

Jeffrey Okamoto, P.E.

Senior Associate Land Development

Ross Willard, Talega

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14725 Alton Parkway, Irvine, CA 92618-2027 # P.O. Box 57067, Irvine, CA 92819-7057 # 949-472-3505 # Fax 949-472-8373 PLANNING B OFFICE B CONSTACTION Offices located throughout Cationae, Autona & Nevada # www.RBF.com

AVERAGE SALES PRICE OF ACTIVE DEVELOPMENTS AND CALCULATIONS OF 1% MARKETING FEE TO MASTER DEVELOPER

BUILDER STATUS OF PLANNING AREAS

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٥	99	ន	7 7	872,128	1703156
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o 8	108	80	0	\$22,816	0
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	103	E.	₹ ;	663,700	49113775
o 5	# ;		5 5	805/54	37688000
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٥	775	348	426	450,500	33787500
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8 - Bungalow TC-A TC-B	302	0	170 132 302	246,500	42245000 38610000
Apl/TH 2-N 2:0	186	0 0	186 252 438	¥ ¥	0.0
Seniors 2-C	283	0	263	¥	0
TOTAL	3745	873	2772		\$1,002,967,819

	o-solfald Lomes	9			e d		*	APN	Tract	Lot No.	Status	Plan	
Cantapria	DIAGNIEN	E CO	Dian 2	Dian 3	Totale		\$	70124228	15955	78	Ē	2	
	•		4		-		4	70124229	15955	3 8	.plos	-	
Finished Homes	- •	4 -	, -		- «		42	70124230	15955	30	Ē	7	
Models	· ;	- (- 0	, 4		43	70124231	15955	.	Ē	က	
Unfinished Homes	97	•	» ;	5	9		4	70124232	15955	35	Ē	-	
Remaining Lots	ş	=	2	2	9		45	70124233	15955	33	Sold	ო -	
	;						46	70124234	15955	8	Ē	-	
Recorded Transactions	23	j	;	•			47	70124235	15955	32	Ë	2	
Remaining Lots	88	definish.	ed homes	are freated	'Unfinished homes are treated as a finished lot.	d lot.	48	70124236	15955	36	듄	ო	
Total Lots	88						4	70124237	15955	37	.pog	7	
	ļ	-		ſ			S	70124238	15955	88	Sold*	-	
**	AP	Tract	Lot No.	Status	Plan		5	70124239	15955	ස	Sold*	2	
-	70122325	14224	8	Š	-		52	70124240	15955	40	Sold*	-	
	70122326	14224	8	Š	7		2	70124241	15955	4	Sold*	က	
1 6	70122327	14224	8	5	m		2	70124242	15955	42	*ploS	-	
n ▼	7012232R	14224	.	5	5		: &	70124243	15955	£4	Sold*	m	
	2012220	14224	6	5	•		3 4	70124244	15955	: 4	Sold*	2	
) ų	20422330	14224	1 6	ju	•		3 6	70424245	15955	4.	Sold*	-	
^ 0	70122331	44224	3 25	5	۱ ۸		5 6 7	70124246	15955	46	Model	· (7)	
~ 0	70122332	14224	S 25	Ē	۰ -		95.	* = GAD Bronarties		!		ı	
0 0	7012233	14224	3 8	<u> </u>	- en		ָ ו	ean iado L					
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12	70122330	4774	8 6	5 5	- 6								
13	70122337	14224	2 ;	5 3	n •								
41	70122338	14224	= 1	5 3	- •								
15	70122339	14224	2 1	5	- (
16	70122340	14224	2 ;	5	,								
17	70122341	14224	7	Model	- (
18	70122342	14224	e :	MOOB	v (
19		14224	23	5 :	ν,								
20		14224	33	5	- •								
21		14224	ਲ	5	י פיז								
22		14224	R	בֿב	7								
23		14224	8	ັ້ລ	ო								
24		14224	83	ັ້ວ	7								
25		14224	21	ji D	က								
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27		14224	83	5	ന								
28		14224	54	֓֞֞֜֞֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓֓	٧,								
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32	70124220	13933	3 2	o to	, 0								
		13933	- F) (1000)	. ~								
460		0000	3 8))	, ,								
100 S	,	12852	3 3	2 1	7 -								
	70124224	00801	* *	2 4	- ~								
in the		CCRC	ę s	DID C	, (
- S		5665	8 8	900	7 -								
36	10124227	15955	17	Dios	-								
Contohria		-			Builde	Builders Status Final Cantabria			2			Builder	Builders Status Final
Cellianie													

Citation

Citation

Plan 4 Totals	1	0	0 0	0	98		" 		u e	Unfinished homes are treated as a finished lot.	³ Plan models are not available at this time.	Plan	W/N	N/A	N/A	N/A	N/A	N/A	N/A	V/A	N/A	V/A	N/A	ΝΆ	N/A	ΝΑ	ΝΆ	N/A	N/A	4/N	A/N	¥ **	W/W	₩.	N/A	Ϋ́		N/A	N/A N/A						
Plan 3	0	0	0	0	-		-	1	¹ Parking Lot under construction	are treated	ot available	Status	Pad	Pad	Pad	Pad	Pad	Pad	Pad	Pad	Pad	Pkg	Pad	Pag	Pad (8 7	2 6	Pad	Model	Modei		Model	Mode! Pad												
Plan 2	0		0	0	-	• =	-	,	Lot under	ed homes	dels are no	Lot No.	8	21	22	23	75	52	92	27	78	83	စ္က	હ	35	33	Ħ	33	36	37	æ, .	- c	۷ (۲	4	2	9	7	œ	6	우	=	12		13	t 5 4
nent Co. Plan 1	0	0	0	0	c		-	,	1 Parking	² Unfinish	Plan mo	Tract	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13835	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935	13935		13935	13935 13935
Tava Development Co.	0	· m	-	0	c	,	88	1	0	88	88	APN	70130101	70130102	70130103	70130104	70130105	70130106	70130107	70130108	70130109	70130110	70130111	70130112	70130113	70130114	70130115	70130116	70130117	70130118	70130119	12130127	70130123	70130124	70130125	70130126	70130127	70130128	70130129	70130130	70130131	70130132		70130133	70130133 70130134
Citation	Finished Homes	Models not finished	Pka¹	Unfinished Homes ²	Not Available	Finished 1 ofe	Remaining Lots	D	Recorded Transactions	Remaining Lots	Total Lots	#]-	2	က	4	ıs	9	7	60	6	10	11	12	13	14	15	16	11	18	19	2.2	2 8	23	24	25	26	27	28	82	8	31	:	32	32 33

Plan	Totals	60	ო	e	8%	£	55		² Unfinished homes are treated as a finished lot.		Plan	-	9	2	m	7 0	7 65	-	2	ဗ	9	2	-	es (m c	. m	2	e .	- (7 69	m	-	eo :	2	ĸ	-	ro ro	2	က	-	2	•	,
	Plan 3	သ	+	7	5	ي ب	, 78		are treater		Status	Ē	5	5	5	5 2	2 G	Pad	Бад	Pad	Pad	Pad	Pad	e G	De de	Pag .	Ę	Š	5 5	5 5	5	Ē	5	Ē	Š	Ē	5	5	Š	ĵ.	ž	-	5
	Plan 2	2	-	-	σ	4	1	L ot	ed homes		Lot No.	8	38	38	37	8 :	£ 4	. 4	4	45	49	47	48	6	8 7	28	23	\$	ខ្លួ	2 8	32	34	5	12	=	9	6	60	7	œ	ç	Ą	•
Homes	Plan 1	-	-	0	7	- 61	4	Parking Lot	20milist		Tract	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14224	14724	1
William Lvon Homes		•	en	m	80	3 5	35	\$	22	5	APN	70122301	70122302	70122303	70122304	70122305	70122306	70122308	70122309	70122310	70122311	70122312	70122313	70122314	70122315	70122317	70122318	70122319	70122320	70122321	70122323	70122324	70122402	70122403	70122404	70122405	70122406	70122407	70122408	70122409	70122410	70122411	
Montellano		Finished Homes	Models	Pkg¹	Infinished Homes	Einiched Ofe	Remaining Lots	Recorded Transactions	Remaining Lots	Total Lots	*]	2	၈	4	LD (0 ^	· eo	Ø	5	Ŧ	12	13	41	(15	5 4	: #2	19	8 8	17	1 23	24	25	56	27	28	59	ଛ	34	32	33	34	•

*	APN		Lot No.	Status	Plan
88	70124464		67	- Pos	-
88	70124465		99	,pos	ო
6	70124466		65	Sold.	-
91	70124467		2	Sold	7
85	70124468		æ	Sold.	4
93	70124469	15954	62	Sold*	က
94	70124470	15954	.	Sold*	4
92	70124471	15954	8	Sold*	2
96	70124472	15954	29	Pad	2
97	70124473	15954	89	Pad	2
86	70124474	15954	24	Pad	2
8	70124475	15954	26	Pkg	욷
100	70124476	15954	55	Ą	2
101	70124477	15954	3	Model	7
102	70124478	15954	53	Model	-
103	70124479	15954	25	Model	4
1 0	70124480	15954	5	Model	က
105	70124481	15954	20	Pad	2
901	70124482	15954	49	Pad	욷
107	70124483	15954	48	Pad	9
	* = GAP Properties	80			

Pacifica Summit

*	APN	Tract	Lot No.	Status	Plan
4	70119241	13880	38	Plos	-
42	70119301	13880	-	Ē	7
5	70119302	13880	7	ᇤ	•
4	70119303	13880	က	Sold*	တ
45	70119304	13880	4	Sold*	4
94	70119305	13880	¥D	Sold*	-
47	70119306	13880	9	Sold*	ю
84	70119307	13880	7	•plos	Ŋ
49	70119308	13880	80	•pios	-
8	70119309	13880	6	Sold	က
51	70119310	13880	무	*ploS	-
25	70119311	13880	Ŧ	sold*	D.
83	70119312	13880	12	Sold*	4
\$	70119313	13880	13	•plos	eo
55	70119314	13880	4	*plos	7
98	70119315	13880	15	Park	
22	70119316	13880	16	.plos	4
88	70119317	13880	17	sold.	-
29	70119318	13880	8	• Plos	2
8	70119319	13880	19	*plos	က
6	70119320	13880	8	Sold	7
62	70119321	13880	2	Sold	က
* = GAP	= GAP Properties				

Statute	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold .	Sold	Sold	Sold	Sold	Sold	Sold																									Builders Statu	1 1 1 1 1 1 1
ON to I			88	\$	Ş ;	<u>5</u> 5	<u>\$</u>	104	105	106	107	108	109	19	Ξ	15	113	14	115	116	117	118	119	120																										
_	15799	15799	15799	15799	15799	15/99	15799	15799	15799	15799	15799	15799	15799	15799	15799	15799	15/99	15799	15799	15799	15799	15799	15799	15799																										
NOV	70110137	70110138	70110139	70110140	70110141	70110142	70110144	70110145	70110146	70110147	70110148	70110149	70110150	70110151	70110152	70110153	70110156	70110155	70110156	70110157	70110158	70110159	70110160	70110161	;	* = GAP Properties																							m	,
•	S	97	86	66	<u>\$</u>	5 5	5 5	\$	105	106	107	5 80	90	140	Ξ	112	113	114	115	116	117	118	119	120	,	d¥5 = c																								
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- Statista	Sold	Sold	Sold	Sold	Sold	Pios Pios	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold	Sold*	Sold	Soid	Sold	Sold	Sold	Sold	Sold	DOS.	Sold	D000	Sold	DioS.	Sold	Sold	Sold S	Sold	plos Plos	Sold	Sold	Sold	Sold	Sold	Sold	9010	Dios	Buildere Status Final	מהוותפוס לופוחה ו ייי
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_	15790	15799	15799	15799	15799	15799	(5799	15799	15799	15799	15799	15799	15799	15799	15799	15799	15799	15799	15789	15799	15799	15799	15799	15799	15799	15799	15799	15799	15799	15799	15/88	15799	15799	26,24	15799	15799	15799	15799	15799	15798	15799	15799	15799	15799	15799	15/99	66/01	15/89		
ADM	70109147	70109148	70109149	70109150	70109151	70109152	70109154	70109155	70109158	70109157	70109158	70109159	70109172	70109173	70110101	70110102	70110103	70110104	70110105	70110106	70110107	70110108	70110109	70110110	70110111	70110112	70110113	70110114	70110115	70110116	70110117	70110118	70110119	20110120	70110122	70110123	70110124	70110125	70110126	70110128	70110129	70110130	70110131	70110132	70110133	70110134	201107	70110136	r	7
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Vizcaya

Vizcaya		Woodbridge			
Recorded Transaction: Remaining Lots Total Lots	ctions	0 41			
	**	APN	Tract	Lot No.	Status
]-	70115114	15868	-	Sold
	7	70115115	15868	2	Sold
	က	70115116	15868	65	Sold
	4	70115117	15868	4	Sold
	ĸ	70115118	15868	'n	Sold
	9	70115119	15868	ဖ	Sold
	7	70115120	15868	7	Sold
	80	70115121	15868	œ	Sold
	o	70115122	15868	6	Sold
	5	70115123	15868	9	Sold
	=	70115124	15868	£	Sold
	12	70115125	15868	12	Sold
	5	70115126	15868	13	Sold
	4	70115127	15868	14	Sold

TALEGA ASSOCIATES, LLC BOND TIMING AND UNDEVELOPED PROPERTY TAX ANALYSIS (000'S) AUGUST 9, 2002

	2009/10 Total 5,291 57,038 3,030 31,711 8,320 88,748 5,291 53,854
Summery of Total Tax Lavry: SMWD CFD 99-1 Debt Service (1) 4.299 4,310 4,427 4,517 4,696 4,704 4,794 4,887 4,988 5,084 5,190 SWMD CFD 1 Debt Service (2) 1,426 2,504 2,537 2,589 2,639 2,690 2,749 2,805 2,856 2,914 2,972	3,030 31.711 8,320 88,749
SMWD CFD 99-1 Debt Service (1) 4.239 4.310 4.427 4.517 4.606 4.704 4.794 4.887 4.988 5.084 5.189 (2) 1.426 2.504 2.537 2.589 2.639 2.690 2.749 2.805 2.856 2.914 2.972	3,030 31.711 8,320 88,749
South County Profiles Reduced Debt Service (2) 1,426 2,504 2,537 2,589 2,639 2,690 2,749 2,805 2,856 2,914 2,972	8,320 88,749
C.U.S.D. CI D DEU GCI 100	
Additional SMWD CFD Bond Debt Service 5,665 6,814 6,965 7,106 7,245 7,394 7,544 7,692 7,844 7,998 8,162	5 291 53.854
Summary of Special Tax Collections SMWD CFD 99-1:	
Developed Property Tax (I.e., Building Permit) (3) 2,727 3,199 3,867 4,517 4,606 4,704 4,794 4,887 4,988 5,084 5,190	
Undev. Property Tax (i.e., Non-Bullding Permit) (1)-(3) 1,513 1,111 560	- 3,184
Merchant Builder Portion of Lindev. Prop. Tax 423 280 141	- 844 - 2,340
Master Developer Portion of Undev. Prop. Tax (4) 1,090 831 419	- 3,184
Total Undev. Prop. Tax 1,513 1,111 560	0,104
Total Tax Collections SMWD CFD 99-1 4,239 4,310 4,427 4,517 4,806 4,704 4,794 4,887 4,988 5,084 5,190	5,291 57,038
Summary of Special Tax Collections CUSD CFD 90-2:	
Developed Property Tax (s.e., Building Permit) (5) 1,174 1,409 1,747 2,326 2,639 2,639 2,649 2,749 2,805 2,856 2,914 2,972	3,030 29,311
Underv. Property Tax (i.e., Non-Building Permit) (2)-(5) 252 1,095 790 283	- 27,727
Merchant Builder Portion of Undev. Prop. Tax 103 276 285 108	- 771 - 1,629
Master Developer Portion of Undev. Prop. Tax (6) 150 819 505 155	- 2,400
Total Under, Prop. Tax 252 1,096 760 263	
Total Tax Collections SMWD CFD 99-1 1,426 2,504 2,537 2,589 2,839 2,690 2,749 2,805 2,856 2,914 2,972	3,030 31,711
Summary of Ad Valorem Tax Collections:	
Assessed Value 37.012 37.752 38.507 39.277 40,083 40,864 41,881 42,515 43,365 44,233 45,117	46,020 496,406
AJ Valorem Rate Lozx 1.02% 1.02% 1.02% 1.02% 1.02% 1.02% 1.02% 1.02% 1.02% 1.02% 1.02% 1.02%	1.02%
Total Ad Velorem Tex 378 385 393 401 409 417 425 434 442 451 460	469
Existing ID 7 AMP Debt Service 185 185 185 185 185 185 185 185 185 185	165
	E 634
Total Ad Valorem and ID 7 AMP Debt Service (7) 542 550 558 565 573 582 590 599 607 616 625	
% of Remaining to be Sold (8) 57.93% 43.19% 32.49% 23.34% 11.10% 2.21% 0.00% 0.00% 0.00% 0.00% 0.00%	4 0.00%
Total Ad Valorem Tax Applicable to Unsold (7)* (8) (9) 314 238 181 132 84 13	- 941
Summary of Total Undeveloped Property Tax Collections (4) + (6) + (9): S1,554 \$1,650 \$1,105 \$287 77 13 \$0 \$0 \$0 \$0 50	\$0 \$4,665

TALEGA VALLEY DEVELOPMENT COST SUMMARY

Development Village Village 2 Planning Area 2-W Village 3 - Talega Village 4 - Talega	Total Backbone Cost Budget (a) 44,197,413 1,157,773 64,005,906 27,509,192	(b) (b)	Total General Development Cost Budget (c) (d) 1,536,465 706,821 20,768,059 19,416,784	Total Development Budget 45,733,878 1,864,594 84,773,965 46,925,976	Backbone Costs Completed as of 8/31/02 (44.197,413) (1.147,526) (36,422,364) (702,337)		General Development Costs Completed as of 8/31/02 (f) (945,080) (434,786) (12,774,444) (11,943,274)	General Development Costs Deleted from Budget 0 (g) 0	Adjusted Development Budget as of 8/31/02 591,384 262,302 35,577,157 34,280,364
Village 5 - Talega	28,547,772		25,258,450	53,806,222	(627,588)		(15,538,486)	(1,100,000) (9)	36,542,148
Village 6 - Talega	6,354,628	(b)	3,929,092	10,283,720	(251,318)	(e)	(2,416,787)	0	7,615,615
Village 6 - Talega (16.1 Acres of Age Res.)	5,413,201	(b)	3,347,004	8,760,206	(214,085)	(e)	(2,058,744)	0	6,487,376
Total Village 6	11,767,829		7,276,097	19,043,926	(465,403)		(4,475,531)		14,102,992
Town Center (Talega) Business Park (Others-Commercial)	3,902,119 7,327,468	(b)	1,351,275 0	5,253,394 7,327,468	(2,124,845) (6,070,343)		(831,170) 0	0	2,297,379 1,257,125
Business Park - Talega	6,143,800		5,891,559	12,035,359	(5,089,749)		(3,623,901)	0	3,321,709
Total Business Park	13,471,268		5,891,559	19,362,827	(11,160,092)		(3,623,901)	0	4,578,834
Total	\$194,559,272		\$82,205,509	\$276,764,781	(\$96,847,568)		(\$50,564,654)	(\$1,100,000)	\$128,252,560

FOOTNOTES:

- (a) includes cost of backbone facilities specific to each development village which are necessary in order to produce a blue-top or superpad parcel.
- (b) In development villages that contained more than one property owner, the Total Backbone Costs were allocated to each property owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross acreage of all planning areas within the particular development phase.
- (c) Includes General Master Developer Costs and Development Agreement offsite such as, entitlement processing, park fees, fire station, environmental mitigation, Vista Hermosa Interchange, La Pata extension, project overhead costs and master marketing costs. These costs exclude costs related to land acquisition, property taxes and finance costs.
- (d) Total General Development Costs were allocated among development villages based on the relative adjusted gross acreage of the development villages in relation to the total adjusted gross acreage of all development villages. Furthermore, in development villages that contained more than one property owner, the General Development Costs of the development village as determined in the proceding sentance was allocated to each property owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross acreage of all planning areas with the particular development village.
- (e) This column represents the Backbone Costs that have been expended or completed as of 8/31/02. Since certain development villages contain more than one property owner, the costs expended to date were allocated to each property owner's planning area based on the relative adjusted gross acreage of such owner's planning area in relation to the total adjusted gross acreage of all planning areas within the particular development village.
- (f) This column represents the General Development Costs that have been expended or completed as of 8/31/02. These costs were allocated in the same manner described in Footnote (d).
- (g) These costs are for the construction of recreation buildings. It is assumed this cost is unique to the Talega development and the finished lot comparatives would not reflect this type of cost, therefore the cost of the recreation buildings have been deleted from the development budget to provide a better matching of costs to revenue.

AMENDED AND RESTATED RATE AND METHOD
OF APPORTIONMENT OF SPECIAL TAX CFD 90-02
(INCLUDES LEGAL DESCRIPTION AND CFD BOUNDARIES)

(SEE APPENDIX C TO THE OFFICIAL STATEMENT)

Potential Products											
PRODUCT TYPE	PLANNING AREA	Unit Totals	Acre Totals	Lot Size	Lot Cost	Periods 1	2	3	4	5	Totals
Altached Product		···				T					
Village 3	3-A	144.00			30,475	4.39					4.3
Village 6	2-W	27.00			30,475					0.82	0.8
Attac	hed Product Totals	171.00			Totals	4.39				0.82	5.2
Small Lot Detached	i	î							1		
Village 3	3-B	91.00			32,200	2.93	$\neg \neg$				2.9
Village 3	3-C	78.00			32,200	2.51					2.5
Village 3	3-D	94.00			32,200	3.03					3.0
Village 3	3_E	73.00			32,200	2.35		ľ			2.3
Village 4	4-B	75.00			32,200			2.42			2.4
Village 4	4-C	104.00			32,200			3.35			3.3
Village 5	5-A	88.00			32,200				2.83		2.8
Village 5	5-B	103.00			32,200				3.32		3.3
Village 5	5-E	75.00			32,200				2.42		2.4
Village 5	5-D	75.00			32,200					2.42	2.43
Small L	ot Detached Yotals	858.00			Totala	10.82		5.76	8.57	2.42	27.5
Conventional		I									
Village 3	3-F	76.00			36,650	2.71					2.7
Village 4	4-D	91.00			36,650			3.24			3.2
Village 6	6-A	51.00			35,650		1.82				1.83
Village 6	6-B	57.00			36,660		2.03				2.0
Village 6	6-C	58.00			38,650		2.07				2.0
	conventional Totals	333.00			Totals	2.71	5.92	3.24		ĺ	11.8
Luxury Single Family					i i						
Village 4	4-E	51.00			40,250			2.05			2.0
Village 5	5-C	55.00			40,250				2.21		2.2
Village 4	4-A	42.00			40,250		1.69				1.69
	ingle Family Totals	148.00			Totals		1.89	2.05	2.21		5.9
Business Park	Ť		-								
	BP-3A		1.53		<u></u>				$\overline{}$		
	BP-3B		4.80							_	
	BP-4B		7.43		<u> </u>		- t	-	-		
	BP-5		1.70								
	BP-6		5.57								
	BP-8		7.50							$\overline{}$	
	Susiness Park Total	- i	28.53		Totals			-			
	GRAND TOTALS	1508.00	20.00		Grand Totals	17.92	7.61	11.06	10.78	3,24	50.64

MARKET DATA - ATTACHED PRODUCT

DATA	LOCATION	SALES DATE	UNITS / DENSITY	SIZE(ACRES)		PRICE/UNIT
	N/S Alton Pkwy between Royal Oak and Valley Oak Oakcreek Village, Irvine	Jan-00	102 / 20.3	9.7	\$868,320	\$62,891
14	Planning Area 1-Phase III	1st Quarter 2001	158 / 18.59	8.5	\$5,610,000	\$59,077
15	Planning Area 2-Phase III Ladera Ranch	1st Quarter 2001	100 / 13.89	7.2	\$4,600,000	\$74,016
16	Planning Area 3-Phase III	1st Quarter 2001	130 / 12.62	10.3	\$66,692	\$92,273
17	Planning Area 4A & 4B Phase III Ladera Ranch	1st Quarter 2001	144 / 14.40	10.0	\$46,444	\$64,440
18	Town Center A Talega	Mar-02	170 / 10.9	15.6	\$8,869,500	\$43,600
19	Town Center B Talega	Mar-02	132/3	18.1	\$9,879,978	\$50,300
20	Business Park 9 Talega	Jan-02	110 / 23.4	4.7	\$5,060,000	\$46,000
21	W/S Grass Valley S/O Meadow Valley Northpark II, Irvine	Mar-01	127 / 16.6	7.7	\$1,670,130	\$101,260
22	N'iy Corner Bryan Avenue and Culver Drive Northpark Square, Irvine	Jun-01	108 / 14.9	7.2	\$1,342,625	\$90,093
23	NWC Grass Valley & Meadow Valley Northpark, Irvine	Mar-01	116 / 10.4	11.2	\$1,232,592	\$119,008
24	W/S Spring Valley N/O Meadow Valley Northpark, Irvine	Mar-01	152 / 17.4	8.7	\$1,308,377	\$74,887
25	N/S Bryan Avenue W/O Culver Drive, Northpark Square, Irvine	Jun-01	112 / 17.5	6.4	\$1,271,123	\$72,636

Bruce W. Huli, MAi Talega Market Data Sept 02

MARKET DATA - ATTACHED PRODUCT

DATA	LOCATION	SALES DATE	UNITS / DENSITY	SIZE(ACRES)		PRICE/UNIT
	NE'ly Comer of McArthur Blvd.	Dec-98	539 / 18.2	29.6	\$13,113,000	\$51,724
	and Bonita Canyon Road					
	Newport Beach]				200 000
2	S'ty Corner of Jamboree Road	Aug-98	1226 / 43.8	28	\$40,000,000	\$32,626
	and Michelson Drive			1		1
	Irvine			<u> </u>	\$7,160,000	\$18.842
3	NWC Los Altos	Mar-98	380 / 32.5	11.7	\$7,160,000	\$10,042
	and La Alamenda					
	Mission Viejo				\$3,500,000	\$16,204
4	NEC Los Altos	Mar-98	216 / 30	7.2	\$3,500,000	310,204
	and La Alamenda			ì	1	1
	Mission Viejo	1			044 500 000	\$23,173
5	SEC Aliso Creek Road	Dec-97	428 / 25	17.1	\$14,500,000	\$23,173
	and Terrace View Drive		1			1
	Aliso Viejo	<u> </u>		<u> </u>	20 400 000	\$25,661
6	NEC Wood Canyon Drive	Nov-96	124 / 23.8	5.2	\$3,182,000	\$20,001
	and Oakgrove	İ				
	Aliso Viejo				64 500 400	\$44,118
7	SWIy Corner of Pine Brook	Jul-99	102 / 20.3	5.02	\$4,500,108	344,110
	and Hawkcreek	i				
	Oakcreek Village, Irvine				00.011.000	\$28,642
8	NEC of Alton Parkway	Apr-98	210 / 21.6	9.73	\$6,014,820	\$28,042
	and Valley Oak Drive					l .
	Oakcreek Village, Irvine				444 400 000	045 000
9	Planning Area 2-0	Aug-00	252 / 25.2	10	\$11,400,000	\$45,238
	Talega, San Clemente				4044.004	950 405
10	NWC View Park and Visalia	Jul-99	128 / 18.6	6.9	\$941,621	\$50,465
	Northpark, Irvine	1 _				
11	SWC Robinson Drive	Jul-00	138 / 15.7	8.8	\$1,084,155	\$68,860
	and Waterman	Į.	[1	1	
	West Irvine					
12	E'ly Corner Robinson Drive	Jul-00	132 / 14.2	9.3	\$999,520	\$70,435
	and Waterman			[1	
	West Irvine			.l	<u> </u>	

RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	PRICE/LOT	PRICE/FINISHED LOT
1	NWC Avenida Pico	Dec-98	85	3,150	\$79,411	\$111,929
	and Calle Alicante					
	San Clemente		<u> </u>			
2	N/S of Avenida Pico	Dec-98	121	2,700	\$67,769	\$103,063
	W/O Camino La Pedriza					
	San Clemente					
3	NWC of Avenida Pico	Dec-98	105	Att/ T.H.	\$43,810	\$79,261
	and Camino La Pedriza]		
	San Clernente					
4	N/O Crown Valley Pky	Jan-99	118	2,000-2,500	\$57,712	\$79,000
	W/O San Antonio Pkwy		1			
	"The Trails", Ladera		l			
5	W/O Crown Valley Pkwy	Jan-99	55	2,500	\$67,636	\$90,000
	N/O Antonio Pkwy		Į.			
	"Shady Cariyon", Ladera					
6	N/O Crown Valley Pkwy	Jan-99	94	3,150	\$82,138	\$101,000
	N /O Antonio Pkwy	i	1			
	"Sarasota", Ladera		l			
7	N/O Crown Valley Pkwy	Jan-99	103	3,150	\$82,136	\$101,000
	W/O Antonio Pkwy,					
	"Maplewood", Ladera					
8	N/O Crown Valley Pkwy	Jan-99	106	3,500	\$98,679	\$120,000
	W/O Antonio Pkwy			<u>l</u>		
	"Whispering Creek", Ladera					
9	N'ly of Meandering Trail	Jan-98	143	2,000-2,500	\$36,014	\$55,000
	S'ly of Oso Pkwy		1			
	"Magnolia Lane", Los Flores		1]		l
10	SEC Oso Pkwy	Dec-97	72	3,000	\$54,167	\$78,000
	and Morning Trail		l			
	"Sundance", Los Flores	i	i	1		
11	SWC and SEC Oso Pkwy	Dec-97	120	3,500	\$67,500	\$87,000
į	and Meandering Trail		1		i	
ļ	"Wyngate", Las Flores			ļ	ļ	

Bruce W. Huit, MAI Talega Market Data Sept 02

MARKET DATA - ATTACHED PRODUCT

DATA	LOCATION	SALES DATE	UNITS / DENSITY	SIZE(ACRES)	SALES PRICE	PRICE/UNIT
26	W/S Culver Drive N/O Bryan Ave. Northpark Square, Irvine	Jun-01	70 / 9	7.8	\$1,185,315	\$131,570
27	W/S Knolkcrest Drive S/O Quail Hill Parkway Quail Hill, Irvine	May-02	69 / 8.6	7.97	\$1,592,013	\$183,889
28	W/S Knollcrest Drive S/O Quail Hill Parkway Quail Hill, Irvine	May-02	204/21.0	9.71	\$1,791,951	\$85,293
29	SEC Turtle Ridge Drive & Summit Park Drive, IrVINE+C59	Jun-02	178/18.9	9.4	\$2,187,644	\$115,527
30	Planning Area 3-A, Village 3 Talega, San Clemente	Current	144/11/6	12.9	\$112,774	\$140,000
31	Plannning Area 3-B, Village 3 Talega, San Clemente	Current	91/6.9	13.2	\$111,538	\$135,000

Bruce W. Hull, MAI Talega Market Data Sept 02

RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE		PRICE/FINISHED LOT
25	E'ly Corner Robinson and Freeland	Apr-00	69	9.9 du/ac	\$105,212	\$133,350
	West Irvine				L	
26	Planning Area 2-P	Jul-00	47	3,500	\$103,936	\$134,449
	Talega, San Clemente					
27	Planning Area P-9	Feb-01	83	2,500	\$76,325	\$111,451
	Phase III, Ladera					
28	Planning Areas 12A & 12B	Feb-01	98	2,880	\$75,000	\$111,948
	Phase III, Ladera					
29	Planning Areas P-13A & P-13B	Feb-01	69	3,250	\$103,050	\$140,952
	Phase III, Ladera					
30	Planning Areas 20A & 20B	Feb-01	111	3,500	\$139,523	\$166,651
	Phase III, Ladera			l		
31	Planning Areas 21A, 21B, 21C	Feb-01	113	4,000	\$132,009	\$168,011
	Phase III, Ladera	l	l	L		
32	W/S Culver Drive	Jun-02	131	3,000	\$157,623	\$186,660
	S/O trvine Boulevard					
	Northpark Square	l			<u></u>	
33	SWC Iryline Blvd. &	Jun-01	121	4,000	\$239,094	\$277,750
	Culver Drive, Northpark]	
	Square, Irvine					
	SEC Quail Hill Parkway &	1				
34	Knollcrest Drive,	June, 02	162	2,500	\$157,639	\$196,882
	Quait Hill, Irvine					
35	E/S "R" Street S/O	Oct-02	95	4,950	\$291,555	\$323,775
	Quail Hill Parkway				ŀ	
	Quail Hill, Irvine					ļ <u></u>
36	W/S "K" Street S/O	Oct-02	63	4,950	\$282,654	\$322,868
	Knolicresr Drive				1	1
	Quail Hill, Irvine	1				
37	NWC "S" Street & "R" Street	Jun-02	92	4,000	\$283,841	\$326,840
	Quail Hill, Irvine		l	L	<u> </u>	

Bruce W. Hull, MAI

Talega Market Data Sept 02

RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

DATA	LOCATION	SALES DATE	NO. OF LOTS			PRICE/FINISHED LOT
12	South Side of Pursuit	Mar-98	71	3,300	\$76,901	\$98,300
	South of Liberty		}			
13	"Cozumel", Aliso Viejo SWC Liberty and Pursuit	Mar-98	86	2.000-2.500	\$55,174	\$73,000
13	"Soled", Aliso Viejo			_,	****	1
14	NEC Wood Canyon Dr.	Aug-98	163	2.000-2.500	\$55,828	\$74,000
14	and Pacific Park Drive	Aug-so	'**	2,000 2,000	*****	
	land Pacific Park Drive		1			
45	W/Corner of Camino de los Mares	Dec-97	64	3,150	\$46.875	\$86,875
15	and Pacifico del Sur	1 500-51	54	5,.55	4	
	Foster Ranch, San Clemente					1
16	NEC Paifico del Sur and	Feb-98	62	3,000	\$75,000	\$135,000
10	Camino del los Mares	1	-		1	
	ISan Clemente			1		
17	Planning Area 2-M	May-00	85	3,500	\$86,310	\$118,117
"	Talega, San Clemente			1	ì	
18	Planning Area 2-C	Feb-00	295	Varies	\$91,525	Varies - See Text
	Talega, San Clemente			1		
19	"Restone"	Feb-00	117	3,150	\$112,482	\$152,000
1.0	Village 2, Ladera Ranch					
20	"Chimney Comers"	Jan-00	92	3,750	120,439	\$156,000
20	Village 2, Ladera Ranch	j	į.			
21	E/S Oak View; S/O West Grand	Apr-99	74	2,660	\$101,014	\$130,926
	Aliso Vieio	<u> </u>	1			
22	SWC Jamboree Road and	May-00	134	3,950	\$136,888	\$174,000
2.2	Robinson Drive	'		i		
	West Irvine	ļ				
23	"Westcott"	May-00	101	9.1 du/ac	\$83,193	\$112,000
	Village 2, Ladera Ranch	1		1	1	
24	"The Gables"	Feb-00	120	9.2 du/ac	\$85,167	\$105,000
	Village 2, Ladera Ranch				i	l

RESIDENTIAL LOT SALES (4000 to 6000 S.F. LOTS)

DATA	LOCATION	SALES DAT	NO. OF LOTS	LOT SIZE (SF	PRICE/LOT	PRICE/FINISHED LOT
1	NWC of Avenida Talega and Avenida Vista Hermosa Talega, San Clemente	Dec-98	68	5,000	\$106,502	\$140,508
2	NWC Avenida Talega and Avenida Vista Hemosa San Clemente	Dec-98	80	5,500	\$145,520	\$179,391
3	NWC Camino La Pedriza and Calle Altea San Clemente	Dec-98	108	4,950	\$120,568	\$154,284
4	NWC Carnino La Pedriza and Calle Allea San Clemente	Dec-98	47	6,000	\$157,225	\$194,272
5	W/O Crown Valley Pkwy N/O Antonio Pkwy "Prescott", Ladera	Mar-99	65	4,250	\$108,462	\$134,000
6	N/O Crown Valley Pkwy W/O Antonio Pkwy Ladera	Mar-99	86	4,500	\$123,953	\$150,000
7	N/O Crown Valley Pkwy W/O Antonio Pkwy "Amberly Lane", Ledera	Mar-99	97	4,750	\$130,412	\$157.000
8	N/O Crown Valley Pkwy W/O Antonio Pkwy "Wyeth", Ladera	Mar-99	133	6,000	\$148,797	\$176,000
9	SWC Oso Pkwy and Morning Trail	Jan-98	131	4,250	\$71,756	\$95,000
10	SW/Side of Antonio Pkwy Breezy Meadows Rancho Senta Margarita	Apr-98	83	4,200	\$91,463	\$111,500
11	SE/Side Meandering Trail Trail, 750 ft. south of Oso Pkwy Las Flores	Dec-97	78	4,750	\$92,308	\$110,000
12	N/WSide of Avendia Benderas approx. 600 ft. northeast of Camino Altonzano, Rancho Santa Margarita	Jan-99	99	4,000	\$140,905	\$161,000
13	South of El Toro Road E/O Foothill Transportation Corridor, Mission Viejo	Jan-99	75	4,000	\$173,905	N/A
14	Terminus of Bend Court at Vela Court Coto de Caza	Jan-98	49	5,000	\$118,543	\$126,500

Bruce W. Hull, MAI Talega Market Data Sept 02

RESIDENTIAL LOT SALES (2000 to 4000 S.F.)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE	PRICE/LOT	PRICE/FINISHED LOT
38	W/S Knolicrest Drive	Jun-02	83	3,750	\$196,039	\$233,802
	S/O Quail Hill Parkway		1		1	
	Quail Hill, Irvine				<u> </u>	
39	E/S *S* Street S/O	Oct-02	93	3,375	\$215,413	\$264,232
	Knollcrest Drive					}
	Quail Hill, Irvine					
40	S'ly Corner "K" Street &	Jun-02	100	3,000	\$217,388	\$ 242,918
	Knollcrest Drive					
	Quail Hill, Irvine				L	
41	S/O Quail Hill Parkway	Jun-02	68	3,500	\$192,471	\$225,971
	& E/O Shady Canyon				1	
	Quait Hill, Irvine				1	
42	SE/S Summit Park Drive	Jun-02	127	3,500	\$191,673	\$274,104
	S/O Garden Terrace					
	Irvine	İ				
43	Planning Area 3-D, Village 3,	Current	94	3,800	\$136,624	\$165,000
	Talega, San Clemente	i				

RESIDENTIAL LOT SALES (4000 to 6000 S.F. LOTS)

DATA		SALES DAT	NO. OF LOTS	LOT SIZE (SF	PRICE/LOT	PRICE/FINISHED LOT
31	Planning Area 2-Q	Jan-01	107	5,000	\$126,131	\$160,143
	E/S Cemino La Pedriza		ł .	1		
	N/O Via Amor		Į.	1	l	
	Talega, San Clemente		1			
32	Planning Area 3-G	Jan-02	38	5,000	\$171,053	\$220,000
	Talega, San Clemente					
33	SWC Grass Valley	Nov-00	45	6,000	\$266,993	\$320,000
	and Meadow Valley			ì		
	Northpark II, Irvine					
34	E/S Spring Valley	Jun-01	67	6,000	\$273,390	\$315,000
	W/O Meadow Valley		İ			
	Northpark II, Irvine				ļ <u> </u>	
35	S/S Irvine Boulevard	Jun-01	95	5,000	\$238,096	\$282,000
	W/O Culver Drive		i	1	ŀ	
	Northpark Square, Irvine					\$450,000
36	W/S Chambrod Road	Jun-01	93	6,000	\$375,000	\$450,000
	N/O Newport Ridge Drive	ļ	1			
	Newport Beach		<u> </u>		\$239,201	\$282,000
37	E/S Corridor N/O Bryan Avenue	Jun-01	92	6,000	\$239,201	\$202,000
	Northpark Square, Irvine	l	99	4.750	\$211,794	\$243,000
38	N/S Bryan Avenue W/O	Jun-01	99	4,/50	\$211,794	\$243,000
	Culver Drive, Northpark	1				
	Square, Irvine	1	67	6.000	\$273,990	\$315,000
39	E/S Spring Valley	Jun-02	67	8,000	\$273,550	\$310,000
	S/O Meadow Valley, Northpark, Irvine SWC Summit Park Or & Garden Terrac	Jun-02	74	5.000	\$425,847	\$485,590
40		Jun-02	/-	5,000	3-23,0-1	\$ 705,500
	Tutle Ridge, Iriven	May-02	64	4.500	\$429,121	5476,613
41	SEC Bonita Canyon Drive & Summit	May-02	04	4,500	-23,12	3.10.010
	Park Drive, Turtie Ridge, Irvine	Jun-02	70	4.000	\$252,656	\$323,065
42	S/S Bonita Canyon Drive	Juni-02	1 '0	4,000	\$2.02,500	1
43	E/O Turtie Ridge Drive, irvine NWC Camino Vera Cruz and Avenida	Dec-01	144	4.000	\$187,599	\$233,000
43	Vista Hermosa, San Clemente	100001	144	4,000	\$107,000	
44	SW/Side of Camino Vera Cruz, 1200	Dec-01	110	5.000	\$207,199	\$245,000
44	N/O Avenida Vista Hermosa, Forster	1 0000	1	0.000	1	1
	Highlands, San Clemente				1	
45	N'ly Comer Camino Vera Cruz and	Dec-01	97	6.000	\$239,890	\$287,600
40	Avenida Vista Hermosa, San Clemente	53551	I "	1 5,000		1
46	Planning Area 3-E, Village III, Talega.	Current	73	4,500	\$183,424	\$215,000
40	San Clemente	Current	1 '	1,500		1
47	Planning Area 3-C, Village III, Talega.	Current	78	4,500	\$164,872	\$195,000
4/	San Clemente	Curon	1	1		

Bruce W. Hutl, MAI

Talega Market Data Sept 02

RESIDENTIAL LOT SALES (4000 to 6000 S.F. LOTS)

DATA	LOCATION	SALES DAT	NO. OF LOTS	LOT SIZE (SF		PRICE/FINISHED LOT
	S'ty of Oso Pkwy and Colo de Caza Drive Coto de Caza	Nov-97	74	5,500	\$135,135	\$163,000
16	E/O Olympiad Road South of Alicla Pkwy Mission Visia	Oct-98	121	5,000	N/A	\$150,000
17	E/O Olympiad Road S/O Alida Pkwy Mission Viejo	Sep-98	20	5,500	N/A	\$155,000
18	N/S Pursuit; South of Liberty Aliso Vieto	Арг-98	53	4,000	\$88,302	\$117,500
19	SW/Side of Pacific Park Drive and NWO Wood Canyon Drive Aliso Viejo	Dec-97	154	5,100	\$102,597	\$122,000
20	Planning Area 2-G Talega, San Clemente	Dec-98	139	4,250	\$101,500	\$133,320
21	"Hempton Road" Village 2, Ladera Ranch	May-00	82	4,000	\$158,675	\$203,000
22	"Belmont Hill" Viltage 2, Ladera Ranch	Mar-00	72	5,500	\$148,056	\$204,000
23	E/O Sermentosa between Camino Vera Cruz and Camino del Rio Planning Area 3-8 Foster Ranch, San Clemente	Mar-00	94	5,000	\$149,154	\$199,154
24	E/O Sarmentosa between Camino Vera Cruz and Camino del Rio Planning Area 3-8 Foster Rench, San Clemente	Mar-00	92	5,500	\$147,826	\$222,000
25	S'ty Corner Trevino and Jamborse Road, West Irvine	Apr-00	113	4,800	\$182,021	\$219,500
26	E'ly Comer Jamboree Road and Robinson Drive, West Irvine	May-00	126	4,400	\$159,300	\$194,300
27	Planning Areas 22A & 22B	Feb-01	102	4,500	\$138,000	\$175,446
28	Planning Areas 24A, 22B, 24C	Feb-01	99	5,000	\$149,495	\$188,975
29	Planning Area 31 Ladera	Mar-01	58	5,500	\$162,517	\$195,020
30	Planning Area 2-S N/S Camino La Pedriza W/S Calle Vista Del Sol Talega, San Clemente	Dec-00	58	5,500	\$146,551	\$177,647

RESIDENTIAL LOT SALES (6000+ S.F. LOTS)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE (SF	PRICE/LOT	PRICE/FINISHED LOT
13	S/S Ridge Park Drive W/O Vista Ridge Road Newport Beach	Jun-00	66	12,000	\$589,246	\$655,000
14	W/O Nellie Gail Road btwn Mustang Dr. & Red Corral Rd. Laguna Hills	May-02	52	13,500	\$351,442	\$433,000
15	NWC Canyon Terrace & Summit Park Drive, Turtle Ridge Irvine	Jun-02	63	8,000	\$614,761	\$707,920
16	NWC Canyon Terrace & Summit Park Drive Turtle Ridge, Irvine	Sep-02	64	6,500	\$512,921	\$585,328
17	E/S Copper Canyon, S/O Shady Canyon Drive, Shady Canyon, Irvine	Jun-01	24	7,000	\$490,833	\$648,000
18	W/S Prarrie Grass Drive N/O Sage Creek, Irvine	Jun-02	20	7,500	\$761,635	\$915,000
19	E'ly Side of Camino Vera Cruz 1,600 N/O Avenida Vista Hermosa, San Clemente	Dec-01	68	7,000	\$239,610	\$322,800
20	Planning Area 3-F, Village 3 Talega, San Clemente	Current	76	6,600	\$292,255	\$325,000

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Talega Market Data Sept 02

RESIDENTIAL LOT SALES (6000+ S.F. LOTS)

DATA	LOCATION	SALES DATE	NO. OF LOTS	LOT SIZE (SF	PRICE/LOT	PRICE/FINISHED LOT
1	Tustin Ranch	Mar-99	46	9,500	\$240,000	\$336,000
2	Terminus of Capistrano By Sea Dana Point	Dec-97	50	10,000-12,000		\$300,000
3	SWC Ortega Hwy & Avenida Siega, San Juan Capistrano	Apr-98	7	9,200-14,000	\$150,000	\$180,000
4	N/O Camino Las Ramblas, SW/ Side of "A" Street, San Juan Capistrano	Jun-00	87	8,750	\$192,110	\$240,000
5	South of Oso Pkwy and Coto de Caza Dr. Coto de Caza	Mar-98	90	6,300	\$170,000	\$265,000
6	Planning Area 2-B Talega, San Clemente	Dec-99	14	11,200	\$285,715	\$346,291
7	Planning Area 2-V Talega, San Clemente	Dec-00	61	6,300	\$163,394	\$234,759
8	"Aubum Hill" Village II, Ladera Ranch	Oct-00	71	6,300	\$198,333	\$232,000
9	E/O Sarmentosa between Camino Vera Cruz and Camino del Rio, PA 3-A Foster Ranch, San Clemente	Mar-00		6,000	\$171,717	\$224,217
10	E'ly Side of Copper Creek between Blusel Heron and Shady Canyon Drive, Irvine	Jun-01	24	14,150	\$490,833	\$648,000
11	W/S Chambord Road S/O Bonita Canyon Road Newport Beach	Dec-00	97	7,000	\$339,013	\$438,900
12	N/O Vista Ridge Road E/O Newport Beach Newport Beach	Jun-00	37	10,000	\$644,270	\$785,000

BUSINESS PARK MARKET DATA SUMMARY CHART

DATA	LOCATION	SALES DATE	ACRES	SALE PRICE	\$/SQ. FT.
	N/S of Calle Avanzado at terminus of cul-de-sac, San Clemente (1 of 3)	Current	2.55	\$1,279,398	\$11.50
17	N/S of Calle Avanzado, 2 lots W/O Camino Celosia, San Clemente	Current	2.03	\$1,026,094	\$11.50
18	NWC Calle Avanzado and Comino Celosia San Clemente	Current	2.82	\$1,410,832	\$11.50
19	NEC Calle Avanzado and Camino Celosia San Clemente	Current	2.02	\$1,006,135	\$11.50
20	N/S Calle Avanzado, 1 lot east of Camino Celosia, San Clemente	Current	2.2	\$1,113,994	\$11.50
21	S/S of Calle Avanzado at terminus of cui-de-sac, San Clemente (1 of 3)	Apr-02	4.3	\$1,722,000	\$9.20
22	E/O Avenida La Pata, N/S Avenida Pico San Clemente, (BP-7).	Jun-02	3.28	\$1,500,000	\$10.50

Bruce W. Hull, MAI Talega Market Data Sept 02

BUSINESS PARK MARKET DATA SUMMARY CHART

DATA	LOCATION	SALES DATE	ACRES	SALE PRICE	\$/\$Q, FT.
1	N'ty Corner Avenida Pico & La Pata	Jan-99	1.19	\$525,000	\$10.10
	San Clemente	1.100	6.45	\$1,900,000	\$6.76
2	Elly Corner Avenida Pico & La Pata San Clemente	Jul-98			
3	N/S Ave. La Pata, Opp. C. Amanecer	Oct-98	1.62	\$635,500	\$9.00
	San Clemente	 	5.47	\$1,668,000	\$7.00
4	SWC Ave. La Pata & C. Del Cerro San Clemente	Sep-98	5.47	\$1,666,000	
4A	SWC Ave, La Pata & C. Del Cerro	Jun-99	5.47	\$2,204,000	\$9.25
44	San Clemente				
5	E/S C. Sombra, N/O C. Amanecer	May-98	1.51	\$625,000	\$9.25
	San Clemente			 	60.05
6	N/S Ave. La Pata, W.O C. Amanecer	Sep-97	2.59	\$875,000	\$9.65
	San Clemente	 		6700 000	\$9.65
7	At junction of Puerta Del Sol & C. Alicante	Dec-00	1.88	\$790,000	\$9.00
	San Clemente	 	13.78	\$5,702,440	\$9.50
8	Btwn Avenida Vista Hermosa & C. Alicante	Dec-00	13.78	\$5,702,440	49.50
	San Clemente	0 00	4.26	\$1,699,775	\$9.00
9	S/S of Puerta Del Sol at Avenida Hermosa San Clemente	Sep-00	4.20	\$1,055,775	
10	S/S of Puerta Del Sol	Dec-00	5.37	\$2,311,700	\$9.88
10	E/O Avenida Hermosa, San Clemente				
11	S/S of Puerta Del Sol	Sep-00	0.93	\$410,000	\$10.12
''	E/O Avenida Hermosa, San Clemente	1 ' 1			
12	Portion of BP-1, Talega Business Park	Apr-02	1.82	\$955,000	\$12.00
.2	Phase I, W/S Avenida Vista Hermosa	<u> </u>			
13	Portion of BP-1, Talega Business Park	Apr-02	1.611	\$950,169	\$13.54
	Phase I, W/S Avenida Vista Hermosa	<u> </u>			
14	Portion of BP-1, Talega Business Park	Apr-02	1.82	\$1,053,785	\$13.25
	Phase I, W/S Avenida Vista Hermosa				411.50
15	SEC Calle Batido & Calle Alicante	Current	1.53	\$766,889	\$11.50
	San Clemente	1			

Bruce W. Huli, MAI Talega Market Data Sept 02

Bruce W. Hull, MA.

---- Inflation Rates Assumby

Gen Dev Costs (before finance and Infertion costs)

Indirect Costs

178,855,435 1508

325,000 250,000 250,000 250,000

ASSUMPTIONS MATRIX
Talega
CFD 90-2 Series 2002
Partel's Land-Use Designations

400,000

8 8

8.00% 85.00% 22.50%

--- Other Assumptions

Const Loan Interest Rate (includes pts)... Loan Replayment (% of Revenues).... Avnual Discount Rate Each time period = Avnual

Admin (Conting Sales & Marketing Costs. Taxes (See schedule)

\$139.154

CONCTURIONS

Present Value of the Property (millons)..

DISCOUNTED CASH FLOW
MASTER DEVELOPER OWNED PARCELS
EXCLUDING AGE RESTRICTED LANDS

GROSS REVENUES	MILLIONS			_	_						
Potential Products											
	PLANNING	PRICE	PRICE	NET	NET			PERIODS-		5	TOTAL
PRODUCT TYPE	AREA	PER LOT	/ SQ.FT.	LOTS	ACRES	1	2		4	, , ,	TUTAL
Attached Product									-		20,160
Village 3	3-A	140,000		144		20.160				4 705	4,725
Village 6	2-W	175,000		27						4.725	
Attache	d Product Totals			171		20.160				4.725	24.885
Small Lot Detached											
Single Family											
Village 3	3-8	135,000		91		12.285					12.28
Village 3	3-C	195,000		78		15.210					15.210
Village 3	3-D	165,000		94		15.510					15.510
Villege 3	3-€	215,000		73		15.695					15.695
Village 4	4-B	195,000		75				14.625			14.62
Village 4	4-C	175,000		104				18.200			18.200
Village 5	5-A	200,000		88		li			17.600		17.600
Village 5	5-B	275,000		103					28.325		26.32
Village 5	5-E	220,000		75		l			16.500		16.500
Village 5	5-D	220,000		75		L				16.500	16.500
Small Lo	Detached Totals			858		58.700		32.625	62,425	16.500	170.450
Conventional											
Single Family											
Village 3	3-F	325,000		76		24.700					24.700
Vittage 4	4-D	325,000		91				29.575			29.57
Village 6	6-A	250,000		51			12.750				12.75
Village 6	6-8	250,000		57			14.250				14.250
Village 6	8-C	250,000		58			14.500				14.50
Co	nventional Totals			333.00		24.700	41.500	29,575			95.77
Luxury Single Family											
Village 4	4-E	475,000		51				24.225			24.22
Village 5	5-C	400,000		55					22.000		22.00
Village 4	4-A	450,000		42			18.900				18.90
	gle Family Totals			148.00	·		18.900	24.225	22.000		65.12
Business Park											
Constituent Law	BP-3A		11.50		1.53	0.766					0.76
	BP-38		18.00	1	4.80	I	3.764				3.76
	BP-48		11.50		7.43	3.722					3.72
	BP-5		18.00	 	1.70		1.333				1.33
	BP-6		11.50	· -	5.57	2.790					2.79
	BP-8		11.50	†	7.50					3.757	3.75
- Aug	iness Park Totals				28.53	7.279	5.097			3.757	16.13
	ND TOTALS			1508.00	28.53	110.839	65,497	86,625	84,425	24.982	372.367

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ABSORPTION SCHEDUL	E S			Annual						
Potential Products	PLANNING	NET	NET	LOTS / ACRES ABSORBED PERIODS						ACRE
PRODUCT TYPE	AREA	LOTS	ACRES	1	2	3	4	5	TOTALS	TOTALS
Attached Product										
Village 3	3-A	144.00		144.00					144.00	
Village 6	2-W	27.00				1.		27.00	27.00	
	Product Totals	171.00		144.00			 -	27.00	171.00	
Small Lot Detached										
Single Family										
Village 3	3-B	91.00		91.00					91.00	
Village 3	3-C	78.00		78.00					76.00	
Village 3	3-0	94.00		94.00					94.00	
Village 3	3-E	73.00		73.00					73.00	
Village 4	4-B	75.00				75.00		_	75.00	
Phase 4	4-C	104.00				104.00			104.00	
Village 5	5-A	88.00					88.00		88.00	
Village 5	5-B	103.00					103,00	_	103,00	
Village 5	5-E	75.00					75.00		75.00	
Village 5	6-D	75.00						75.00	75.00	
Small Lot I	Detached Totals	856.00		336.00		179.00	266.00	75.00	856.00	
Conventional										
Single Family										
Village 3	3-F	76.00		76.00	L				76.00	
Village 4	4-D	91.00		[.		91.00			91.00	
Village 6	6-A	51.00			51.00				51.00	
Village 6	6-B	57.00			57.00				57.00	
Village 6	6-C	58.00			58.00				58.00	
	ventional Totals	333.00		76.00	166.00	91,00			333.00	
Luxury Single Family										
Village 4	4-E	51.00				51.00			51.00	
Village 5	5-C	55.00					55.00		55.00	
Village 4	4-A	42.00			42.00		1		42.00	
	le Family Totals	148.00			42.00	51.00	88.00		148.00	
Business Park	1									
	BP-3A		1.53	1.53						1.5
	BP-38		4.80		4.80	 	- +			4.0
	BP-4B		7.43	7.43			t			7,4
	BP-5		1.70		1,70		1			1.
	BP-6		5.57	5.57						5.1
	6P-8		7.50					7.50		7.5
	ess Park Totals		28.53	14.53	6.50	_		7.50		28.
		4700.00		556.00	208.00	321.00	321.00	102.00	1508.00	100000
	AND TOTALS		MANAMAKA			321.00	321.00		71111111111111111111111111111111111111	28.53
ACRE GR	AND TOTALS		28.53	14.53	6.50			7.50	WARRANT PROPERTY OF THE PARTY OF THE PARTY OF THE PARTY OF THE PARTY OF THE PARTY OF THE PARTY OF THE PARTY OF	28,53

				-PERIOD			
		1	2	3	4	5	TOTAL
PROJECT REVENUES:							
Revenues		\$110.839	\$65.497	\$86.625	\$84.425	\$24.982	\$372.36
Adjusted Revenues		\$115.272	\$70.841	\$97.441	\$98.765	\$30.394	\$412.714
Price Inflation (Annually)	4.00%						
Other Revenues - SMWD 99-1		5.500					
Other Revenues Marblehead				Ī			
1% Builders Ad Umbrella		4.808	1.4049	1.6505	0.8512	1.3151	\$10.03
TOTAL PROJECT REVENUES		125.580	72.246	99.092	99.616	31.710	\$428.24
PROJECT COSTS:							
DIRECT COSTS							
Direct Construction Costs (W/OUT Land):							
Total Backbone costs	1	\$43.045	\$14.103	\$34.280	\$36.542	\$0.282	\$128.25
Builders Costs	l l	\$17.917	\$7.608	\$11.061	\$10.779	\$3.238	\$50.60
Cost Inflation (Anually)	4.00%					T	-
Cost Inflation - Annual	4.00%	1.040	1.082	1.125	1.170	1.217	
Total Adjusted Direct Costs		\$63.400	\$23.483	\$51.003	\$55.359	\$4.283	\$197.52
INDIRECT COSTS	ļ						
Ad Valorem Prop Tax /CFD Tax		1,554	1.650	1.105	0.287	0.077	\$4.67
Admin./Conting.	1.00%	\$1.153	\$0.708	\$0.974	\$0.988	\$0.304	\$4.12
Sale & Marketing	1.00%	\$1.153	\$0.708	\$0.974	\$0.988	\$0.304	\$4.12
Total Indirect Costs		\$3.859	\$3.067	\$3.054	\$2.262	\$0.684	\$12.92
TOTAL DIRECT & INDIRECT COSTS		\$67.259	\$26.550	\$54.057	\$57.621	\$4.967	\$210.45
Tot Period Loan Interest	8.00%	\$2,690	\$1.062	\$2.162	\$2.305	\$0.199	\$8,41
TOTAL COSTS		\$69.950	\$27.612	\$56.219	\$59.926	\$5.166	\$218.87
REVOLVING LOAN FUND							
Loan Draw on Direct Costs - reimbursement	ts	\$69.950	\$27.612	\$56.219	\$59.926	\$5.166	\$218,87
Loan Repayment	1	\$69.950	\$27.612	\$56.219	\$59.926	\$5.166	\$218.872
Loan Balance			i				\$0.00
Total Period Loan Interest		\$2.690	\$1.062	\$2.162	\$2.305	\$0.199	\$8.41
Loan Repayment (% of Revenues)	80.00%						
TOTAL COSTS		\$69.950	\$27.612	\$56.219	\$59.926	\$5,166	\$218.87
CASH FLOW ANALYSIS						Ī	
Nominal Dollars:	1			1			
Cash Flow - Year	1 1	\$55.630	\$44.634	\$42.873	\$39.691	\$26.544	\$209.37
Cumulative		\$55.630	\$100.264	\$143.137	\$182.828	\$209.372	\$209.37
Mid Annual Period Discount Factor	1						
Discount Factor:	22.50%	0.9035	0.7376	0.6021	0.4915	0.4012	
Discounted Cash Flow	1	\$50.262	\$32.920	\$25.813	\$19.508	\$10.650	\$139.15
Cumulative	\$139.154	\$50,262	\$83.183	\$10B.996	\$128.504	\$139.154	

MAI HULL, QUALIFICATIONS OF BRUCE W.

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115 E. Second Street, Suite 100

Tustin, California 92780 (949) 581-2194 * Facsimile (949) 581-2198

Bruce W. Hull & Associates, Inc. is an appraisal firm that provides a wide variety of appraisal assignments for public agencies, developers and financial institutions. The principal, Bruce W. Hull, MAI, has been in the appraisal field since graduation in 1969 from Westmont College, Santa Barbara. After being employed by the Ventura County Assessor's Office for five years, he established an appraisal company in Orange County in 1974. In August of 1995 he established an office in Ventura while maintaining an Orange County location. While most of the appraisal assignments are in Southern California, assignments have been completed in areas from San Francisco/Bay Area and Lake Tahoe to San Diego.

The appraisal assignments completed have been diverse in nature, including such property types as large masterplanned developments, shopping centers, large retail uses, and mitigation land. A brief summary of the more challenging assignments is given on the following pages.

MASTERPLANNED DEVELOPMENT

These are typically more than 1,000 acres in size and have a wide variety of residential product, often ranging from condominiums to large estate type of properties. In addition, there is often a commercial use within the development. I have been involved in the following projects

Towne Center, Rancho Santa Margarita Rancho Trabuco North and South, Rancho Santa Marganita Rancho San Clemente, San Clemente Lake Sherwood, Hidden Valley Hunters Ridge, Fontana The Corona Ranch, Corona Mountain Cove, Temescal Wood Ranch, Simi Valley

Orangecrest, City of Riverside Aliso Viejo, County of Orange Talega Valley, City of San Clemente/County of Orange Otay Ranch, City of Chula Vista Mountain Gate, South Corona The Foothill Ranch, Corona

RETAIL USE

Consultant to City of Long Beach regarding a 30 acre site (Long Beach Naval Hospital) which the City was acquiring from the US Navy for inclusion in a 100 acre shopping center site. Towne Center, Rancho Santa Margarita, is a masterplanned project which contains two shopping centers (Towne Center, 160,000 SF plus a Target Store, 122,000 SF; Plaza Antonio, 165,000 SF).

Mission Grove, City of Riverside, is a 395,362 SF center which included a K-Mart Department Store among the major tenants.

Victoria Gardens Masterplan was a proposed mixed use project consisting of 3,065 acres of land which included a mixture of residential (2,150 acres); commercial (335 acres of which 91.9 acres was a regional center site); schools; parks; and open space for the remainder of the lands. Menifee Village, Riverside County, is a 1977 acre masterplanned development which had approvals for 5,256 units. The assignment included the valuation of Planning Area 2-7 which was a commercial site that had been developed with a Target Store. Ralph's Market, and in-line stores (190,000 SF with eventually being a 257,000 SF center).

MITIGATION LANDS

These assignments involved valuing lands that are considered mitigation lands which are often acquired by public agencies or nonprofit organizations.

wetlands conservation program. This particular acreage was unique since it was subject to "tidal flushing" and had both fresh and saltwater impacting the lands. This assignment was completed for Metropolitan Water District. Bolsa Chica, Huntington Beach, a 42-acre site which was part of a larger

San Joaquin Marsh, City of Irvine, consisted of approximately 289 acres of wettands which were acquired for use as a "buffer" zone by the Irvine Ranch Water District.

Eagle Valley, a 1072-acre parcel near Lake Matthews in Riverside County, was acquired by Metropolitan Water District for use as a water treatment plant and buffer zone.

Poormans Reservoir, Moreno Valley, a 38-acre site acquired by the City of Moreno Valley for preservation/open space use.

ASSESSMENT DISTRICTS/BOND ISSUES

Have been involved in the appraisals of the following Bond Issues regarding Community Facilities Districts and/or Assessment Districts. (This represents a partial list of assignments completed from 1990 thru Present.)

CFD No. 9 (Orangecrest - Impr. Areas 1, 3 & 5); City of Riverside
CFD No. 2000-1 (Crosby Estate @ Rancho Santa Fe); Solana Beach
CFD No. 2001-01 (Murrieta Valley U.S.D.); Murrieta
CFD No. 2001-01 (Lusk-Highlander); City of Riverside
Otay Ranch SPA I - CFD No. 99-2; City of Riverside
CFD No. 7 (Victoria Grove); County of Riverside
CFD No. 10 (Fairfield Ranch); City of Chino Hills
CFD No. 2000-1; Tejon Industrial Complex; Lebec
CFD No. 99-1; Santa Margarita Water District
CFD No. 99-1; Santa Margarita Water District; City of Riverside
CFD No. 99-1; City of Chula Vista
CFD No. 99-1; City of Chula Vista
CFD No. 99-1; City of Chula Vista
CFD No. 99-1; City of Chula Vista
CFD No. 99-1; City of Corona
CFD No. 99-1; City of Corona
CFD No. 99-1; City of Corona
A.D. No. 99-1; City of Corona
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CFD No. 99-1; City of Corona
CFD No. 91-1; City of Corona
CFD No. 2 (Riverside Unified School Dist); Rancho Santa Margarita
CFD No. 91-1; City of Corona
CFD No. 91-1; City of Corona
CFD No. 91-1; City of Corona
CFD No. 91-1; City of Corona
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CFD No. 91-1; City of Corona
CFD No. 91-1; City of Corona
CFD No. 90-1; City of Chorona

CFD No. 89-1; (Saddleback Valley Unified School District); Orange County A.D. No. 96-1; City of Oxnard A.D. Nos. 86-3, 87-1 and 89-1 (Refunding); City of Oxnard CFD No. 90-1; City of Corona CFD No. 90-1; City of Corona CFD No. 1 (Refunding); City of Jurupa CFD No. 89-12; City of Temecula

PARTIAL LIST OF CLIENTS

Have completed appraisal assignments for a wide variety of clients. A partial list of these includes the following.

Anaheim City Unified School District
Bank of America NT & SA
Bank of Montreal
Bank of Montreal
Beat, Steans & Co., Inc.
Best Best & Krieger LLP (Law Firm)
Carpintenia Valley Unified School District
Citinor Unified School District
Citinor Unified School District
Citior On N. A.
City of Chino
City of Chino
City of Chino
City of Chino
City of Chula Vista
City of Chula Vista
City of Chuntapton Beach
City of Murtington Beach
City of Murtington Beach
City of Moreno Valley
City of Moreno Valley
City of Marsion Viejo
City of Marsion Viejo
City of Marcho Cucamonga
City of Marcho Cucamonga
City of Cannge
City of San Bernardino
City of San Bernardino
City of San Bernardino
City of San Bernardino
City of San Bernardino
City of San Bernardino
City of San Bernardino
City of San Marcos
City of County of Los Angeles
County of Los Angeles
County of Cannge

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County of Ventura

Downey Savings and Loan
Federal National Mortgage Association (FNMA)
Federal Deposit Insurance Corporation (FDIC)
Friedman, Rolapp & Associates (Financial Consultants)
Irvine Ranch Water District
Irvine Unified School District
Metrobank
Metrobank
Metrobank
Metropolitan Water District
Meserve, Mumper & Hughes (Law Firm)
Munger, Tolles & Olson LLP (Law Firm)
Munger, Tolles & Olson LLP (Law Firm)
Munger, Tolles & Olson District
Rialto Unified School District
Rialto Unified School District
Santa Margarita Water District
Santa Margarita Water District
Santa Margarita Water District
Solana Beach Unified School District
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COURT EXPERIENCE

Qualified Expert Witness in the following courts:

United States District Court/Central District of California, Los Angeles Los Angeles County Superior Court Orange County Superior Court Riverside County Superior Court Ventura County Superior Court

ORGANIZATIONS

Member - Appraisal Institute (No. 6894)

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LICENSES

Real Estate Broker - State of California Certified General Real Estate Appraiser - State of California (Certificate: AG004964)

GUEST SPEAKER (for)

UCLA Symposium on Mello Roos Districts - 1988

"Exploring the Rumors & Realities of Land Secured Debt in California" - Conference sponsored by Stone & Youngberg, LLC, bond underwriters, held in Los Angeles on January 15, 1992

"Appraisats for Land Secured Financing" presentation for Stone & Youngberg, LLC, bond underwriters, held at San Francisco Headquarters on March 5, 1998

UCLA Symposium on Mello-Roos Districts - 2001

MISCELLANEOUS

Member Advisory Panel to California Debt Advisory Commission regarding Appraisal Standards for Land Secured Financing (May, 1994)

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APPENDIX B

MARKET ABSORPTION STUDY

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

PREPARED BY

EMPIRE ECONOMICS, LLC

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MARKET ABSORPTION STUDY SUMMARY AND CONCLUSIONS

COMMUNITY FACILITIES DISTRICT CFD NO. 90-2

CAPISTRANO UNIFIED SCHOOL DISTRICT
ORANGE COUNTY, CALIFORNIA

BY EMPIRE ECONOMICS, INC

- * PARTIAL UPDATE: OCTOBER 2002 *
- * COMPREHENSIVE STUDY: AUGUST 2002 *

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INTRODUCTION TO THE BOND FINANCING PROGRAM

The Planned Community of Talega, consisting of some 3,510 acres, is being developed by Talega Associates, LLC, a consortium of developers/builders including Standard Pacific of Orange County, Inc., Catellus Residential Group, Inc., and JKS Holding, LLC. Talega is located in the City of San Clemente as well as the County of Orange, approximately one mile to the east of Route 5, with Pico Avenue near its southerly boundary. Talega has received planning approvals for up to 4,500 residential units, including single-family detached homes, condominiums, townhomes, and apartments. Presently, Talega Associates, LLC's current development strategy is for the development of some 3,866 units; this is less than the number of entitlements, and so it is within the planning approval parameters. Additionally, there are approximately 58.8 net acres for a Business Park which is expected to be developed with business projects as well as another 9.8 net acres for commercial-retail centers. Furthermore, there are 2,025 acres of permanent open space, an eighteen hole championship golf course, and 74 acres of community parks.

Talega Associates, LLC, has been forming various Community Facilities Districts (CFDs) for the Planned Community of Talega as a means of funding the backbone and other related public infrastructure that is required to support the development of its residential and business-commercial products.

- First, a CFD was formed with the Santa Margarita Water District (SMWD), and its purpose was to fund various water facilities; the amount of the Bonds issued in August 1999 amounted to some \$79 million; some of these bonds are still in escrow.
- ➤ Secondly, a CFD was previously formed for Talega by the Capistrano Unified School District (CUSD), CFD No.90-2, and its purpose is to fund various school facilities. The amount of the Bonds issued thus far, in October 2001, amounted to some \$21.4 million; the maximum bond authorization amount is \$50 million.

Talega, with Phases I and II, has established a strong reputation in the marketplace with regards to its sales and housing prices:

- > The sales rate (escrows closed) has amounted to some 430 per year during the January-2000 to July 2002 time period.
- ➤ The prices for homes, as measured by their values ratios (price/living area), started at some \$152 in the 4th-1999 and, since then, have increased to some \$178 in 2nd-2002, reflect an appreciation rate of some 8% per year on an annualized basis.

Therefore, Talega has experienced strong rates of sales and housing appreciation since projects started to enter the marketplace in the latter portion of 1999 and this has continued through 2nd-2002.

Specifically, from the viewpoint of Bond Holders, the particular components of the infrastructure should be time-phased and location-phased in a manner that approximately coincides with the expected marketability/absorption of the projects in CFD No.90-2. Thus, the Market Absorption Study formulates guidelines on the appropriate or optimal time-phasing and location-phasing of the infrastructure for the properties located in CFD No.90-2, Talega.



0 1000 2000' approx.

Date of flight: June 22, 2002



SITE AERIAL PHOTOGRAPHY

CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR CFD NO.90-2 (TALEGA)

The Planned Community of Talega has received planning approvals/entitlements from the County of Orange for up to 4,500 housing units, and so this represents the maximum number of units that may be developed. Based upon Talega Associates, LLC, the current development strategy for Talega, however, is expected to be for only some 3,866 housing units, some 1,099 fewer than the maximum amount allowed. Since Empire Economics regards Talega Associates, LLC, development strategy for Talega as a representation of the most probable product mix, it is utilized in the Market Absorption Study. Nevertheless, it is worthwhile to note that Talega Associates, LLC, may revise its development strategy for Talega, and so the number of units actually developed may vary from the 3,866 units.

CFD No.90-2 (Talega) originally had an exemption from Special Taxes for some 66 acres of housing oriented towards seniors (age restricted). The current development plan includes 283 homes on 49.8 acres for age restricted housing (households with at least one member 55 years of age or more), and this is in Village II Area 2C. Based upon representation from Talega Associates, LLC, there are currently no other planning areas that have age restricted housing.

Additionally, planning approvals were also received for approximately 58.8 net acres for a Business Park which includes various types of business development and 9.8 net acres for Retail Centers for commercial retail/office projects.

With respect to the composition of the 3,583 housing units in the CUSD CFD No.90-2 (excluding the 283 age restricted units) by product type categories, prices, living areas and various environmental approvals, the characteristics are as follows:

> The composition of housing units by product type categories, number of units, market shares, number of escrows closed, prices as well as living areas, is as follows:

Apartments - Affordable:

186 units, 5.2%; no occupancies

Apartments - Market Rents:

362 units, 10.1; no occupancies

Village Center:

302 units, 8.4%; no escrow closings

Priced at some \$270,500 for 1,464 sq.ft.

Attached:

335 units, 9.3%; 191 escrow closings

Priced at some \$298,000 for 1,765 sq.ft.

Detached: \$325-450,000:

861 units, 24.0%; 342 escrow closings

Priced at some \$397,796 for 2,168 sq.ft.

Detached: \$450-700,000:

1,314 units; 36.7%; 397 escrow closings

Priced at some \$549,093 for 3,133 sq.ft.

Detached: \$700-1,000,000:

233 units, 6.2%; 16 escrow closings

Priced at some \$905,690 for 4,653 sq.ft.

> The geographical location of the units, within the City of San Clemente or in the Orange County unincorporated area is as follows:

County of Orange:

466 units, 13.1%

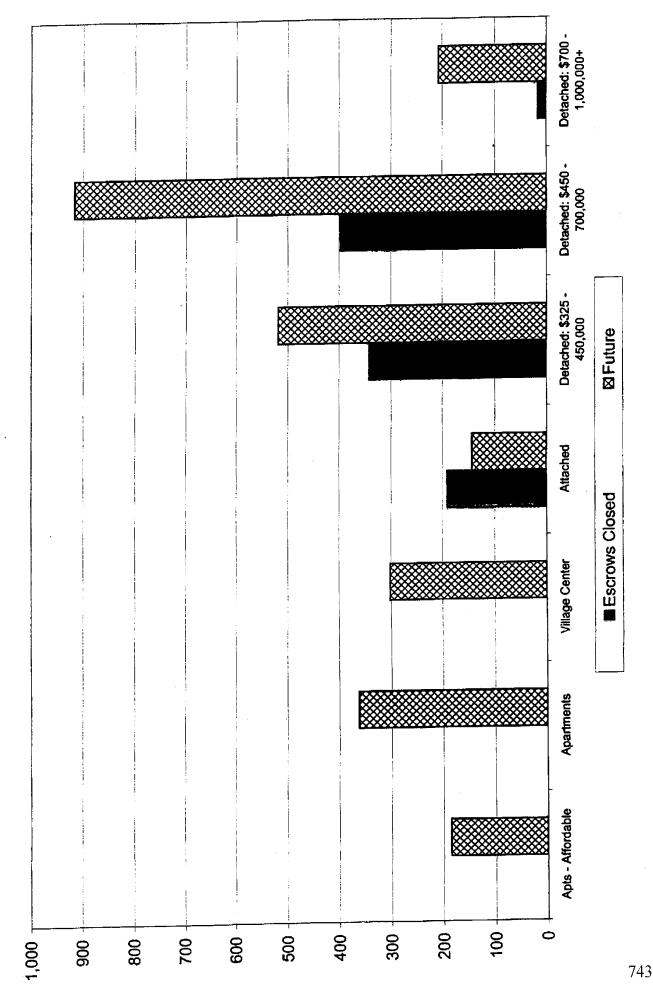
City of San Clemente:

3,117 units, 86.9%

> Units within the City of San Clemente have Final RDEB Approvals: 1,313 of the 3,117 units.

For additional information on the characteristics of the product mix for Talega, please refer to the following graph.

EXPECTED PRODUCT MIX FOR CFD NO. 90-2 (TALEGA) (EXCLUDING AGE-RESTRICTED UNITS)



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RESIDENTIAL DEVELOPMENT TRENDS/PATTERNS IN THE CFD NO.90-2 NEIGHBORHOOD

The southeasterly portion of Orange County has experienced a considerable amount of development activity during the past thirty years, as various Planned Communities, Business Parks, and Retail Centers have entered the marketplace in a systematic manner; the Planned Community of Talega is considered to be a sequential extension of this development pattern.

Specifically, the development patterns in the southeasterly portion of Orange County (OC) have been influenced by two key factors:

- First, the pattern represents a systematic extension from the urbanized areas of central OC into the rural areas of southern OC as well as the cities located in the far southern portion of Orange County, such as San Clemente.
- > Secondly, the Planned Communities in southern OC are accessed by Route 5, a major north-south freeway, as well as the recently completed northern portion of the Foothill Transportation Corridor (FTC), Route 241, a north-south toll road; additionally, the southern segment (south of Oso Parkway) is expected to be completed during the next five+ years.
- > Third, access to Talega is approximately a mile to the east of Route 5, by way of Pico Avenue; additionally, the future extension of the FTC may be at its easterly boundary, depending upon the FTC alignment that is ultimately chosen.
- > The recent completion of the Route 5 Vista Hermosa interchange has enhanced the accessibility to Talega, providing an alternative to Pico Avenue.

Accordingly, the types of development that have occurred or are expected to occur in the vicinity of Talega are as follows:

- Some 14 miles to the northeast is Rancho Santa Margarita, a conglomeration of various Planned Communities, Business Parks and Retail Centers, which, together contains 15,000 housing units, 400+ business-office acres and 100+ commercial-retail acres. Most of this property has already been developed/marketed to final-users, and so these Planned Communities, Business Parks and Retail Centers are approaching their build-outs.
- > Approximately 12 miles to the northeast is the Planned Community of Coto de Caza, which features luxury housing in a golf course setting; it has already had most of its 4,000 homes built and sold.
- > Some 10 miles to the north is Mission Viejo, a Planned Community with some 30,000 homes that entered the marketplace some 30 years ago which has just recently completed the marketing of their residential projects and apartment complexes.
- About 6 miles to the north is the Planned Community of Ladera Ranch which has entitlements for some 8,100 housing units, and entered the marketplace in mid-1999, and, since then, has closed escrows on some 2,300+ homes.
- > Finally, some 2 miles to the north is the Planned Community of Forster Ranch which has some 1,000 housing units for future development, and these entered the marketplace with models in mid-2000, and, since then, have closed escrows on some 550+ homes.
- Finally, to the north-east are various Planned Communities that are proposed for future development; however, since they have not yet obtained their planning approvals, these are not expected to enter the marketplace for five+ years.

Therefore, within the context of the development in southeasterly Orange County, Talega represents a Planned Community that continues the development patterns.

ROLE OF MARKET STUDY IN THE BOND FINANCING

The Market Absorption Study for CFD No.90-2 (Talega) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the District's Products:

The Market Absorption Study provides an estimate of the absorption of the residential single-family detached, townhomes and apartments as well as the commercial-retail and industrial/office product types in CFD No.90-2, through a consideration of the expected demand for each of these products in the Market Area, as a whole, along with the competitiveness or capture rate for each of CFD No.90-2's products in the marketplace, in particular.

Special Tax Payment Analysis:

> Aggregate Amount of Special Tax Revenues and Debt Service:

The amount of Special Tax Revenues generated by the properties in the District is derived by using the aggregate number of residential units as well as the commercial-retail and industrial/office acres, along with their Special Taxes per unit/acre. These Revenues determine the amount of the Annual Debt Service Payments that the District can accommodate, and hence the size of the Bond Issue that can be supported by CFD No.90-2.

> Special Tax Revenues by Product Types:

The combined Ad Valorem Property Tax and Special Tax burden for the residential products is expected to amount to less than two-percent of their respective market values. Accordingly, a component of this analysis is the expected prices/values for the various types of residential products in CFD No.90-2. Consequently, Empire Economics performs a comprehensive analysis of the comparable projects in the marketplace, in order to evaluate the prices for the forthcoming products.

> Relative Shares of Special Tax Payments:

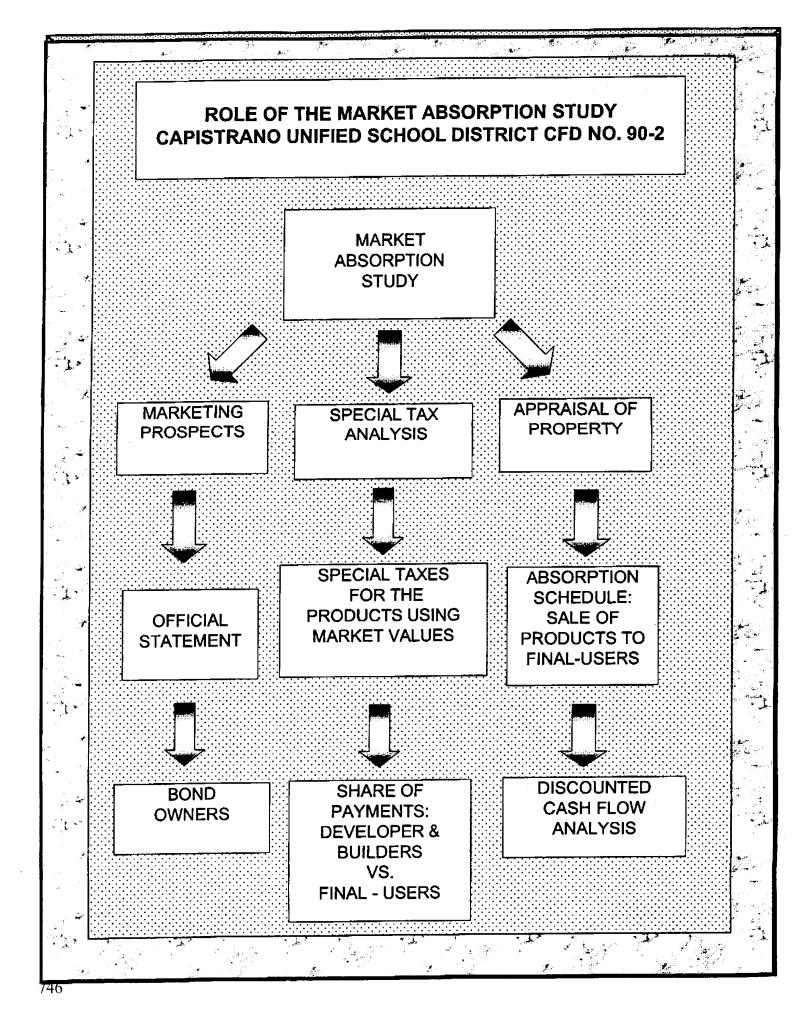
The Special Tax Payments required to meet the Annual Debt Service are paid by the developer or builders (for undeveloped property or unsold homes) and also by the final users/homeowners (on the fully improved/occupied properties); the proportionate shares of their payments vary on a year/year basis. The absorption schedules can be utilized to estimate the amount of the Special Tax Payments that are likely to be paid by the developer/builders: the longer the absorption time period, the greater their share of the Special Tax Payments.

Appraised Value - Discounted Cash-Flow:

The Appraiser considers the absorption schedules as part of the Discounted Cash Flow Analysis which provides an estimate of the present value of the property to be developed in CFD No.90-2; this reflects the security/collateral underlying the Bond Issue. The absorption schedules represent a critical component of the Appraisal: the longer the absorption time, the less the Discounted Value, as compared to the undiscounted Retail Value.

Structuring the Bond Issue:

The Issuing Agency for the Bond Issue, the Capistrano Unified School District, along with the Underwriter, can utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue for CFD No.90-2.



RECENT/EXPECTED ECONOMIC CONDITIONS

The US economy's longest post WW II expansion ended during the latter portion of 2001, after 40 quarters (10 years) the growth in real Gross Domestic Product (GDP) that amounted to some 40% (1.00%/qtr). By comparison, the other major Post WW II expansions were as follows: The Kennedy Johnson expansion had a span of 34 quarters during which real GDP grew by a total of 49% (1.44%/qtr). While the Reagan expansion had a span of 30 quarters over which real GDP grew by 35% (1.17%/qtr).

The current expansion faltered during the latter portion of 2001 due to the following factors: diminishing levels of corporate profits, lower stock market values which adversely impact both business (difficulty of raising capital) as well as consumers, and the Sept.-11 terrorist attacks along with their subsequent ramifications.

The Most Probable Economic Scenario is based upon the Federal Reserve Board (FRB) controlling interest rates in such a manner to countervail the adverse factors mentioned, thereby minimizing the duration and depth of the economic slowdown or recession (two successive quarterly negative changes in employment).

The US economy has recently experienced a moderate recession with regards to employment. During the 4th-2001 to 3td-2002 time period, employment declined each quarter, for an overall average loss of some - 0.95% on the average (just below 1.0%). Then, starting in the 4th-2002, the US economy is expected to enter its recovery phase, based upon actions taken by the Federal Reserve Board as well as substantially higher levels of government expenditures, thereby generating with moderate rates of growth by the early portion of 2003.

California is expected to perform at a stronger level than the US economy, since it experienced a deeper recession in the early 1990s, and underwent a more significant re-structuring. The CA economy experienced employment losses during 1st-2002 to 3rd-2002, with employment declining by some -0.29% on the average. The CA economy is expected to enter its recovery phase in the 4th-2002, with moderate rates of employment growth in 2003.

Therefore a comparison of the rates of employment growth rates for the US and CA economies reveals that the CA economy has performed better than the US economy during 4th-2001 to 3rd-2002; this represents a continuation of a pattern that began in 1996, when CA emerged from a major recession in the early 1990s.

By comparison, the SC economy experienced employment gains during 4th-2001 to 3th-2002, with employment increasing by some 0.52%, on the average. The rates of employment growth for the various SC-Counties generally declined during the 4th-2001 to 3th-2002 time period; however, employment growth remained positive throughout this time period, and so SC, as a whole, has not experienced any employment losses, thereby avoiding an economic recession.

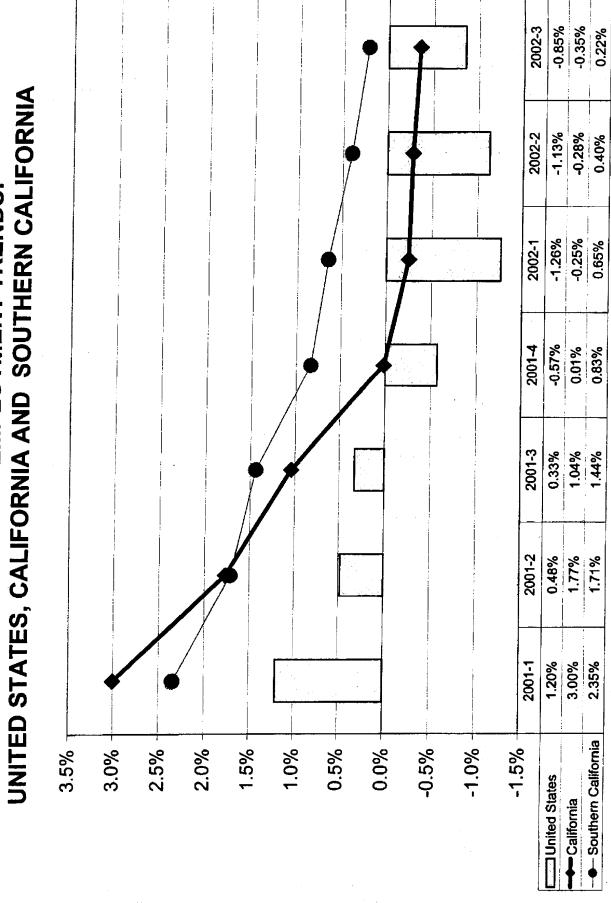
Within the SC economy, there have been some differences in the performance of the various counties, with all of the counties experiencing employment gains except for Los Angeles County which encountered losses. Accordingly, the recent rates of employment growth for each of the SC-Counties during June 2001 to June 2002 have been as follows:

Riverside-San Bernardino Counties: 30,700
Orange County: 5,100
San Diego County: 21,200
Los Angeles County: -27,500

The Most Probable Economic Scenario for Southern California (SC) economy is that it is expected to outperform California economy for the following reasons: First, SC is less reliant on the "new economy" jobs than the San Francisco Area, and so the potential impacts of the recent stock market declines are not expected to have as much of an impact. Secondly, SC is expected to benefit from higher level of defense spending, including federal allocations prior to Sept.-11 as well as additional expenditures as a result of the Sept.-11 events.

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RECENT/EXPECTED EMPLOYMENT TRENDS:



RECENT ECONOMIC AND CONSTRUCTION ACTIVITY TRENDS/PATTERNS IN ORANGE COUNTY

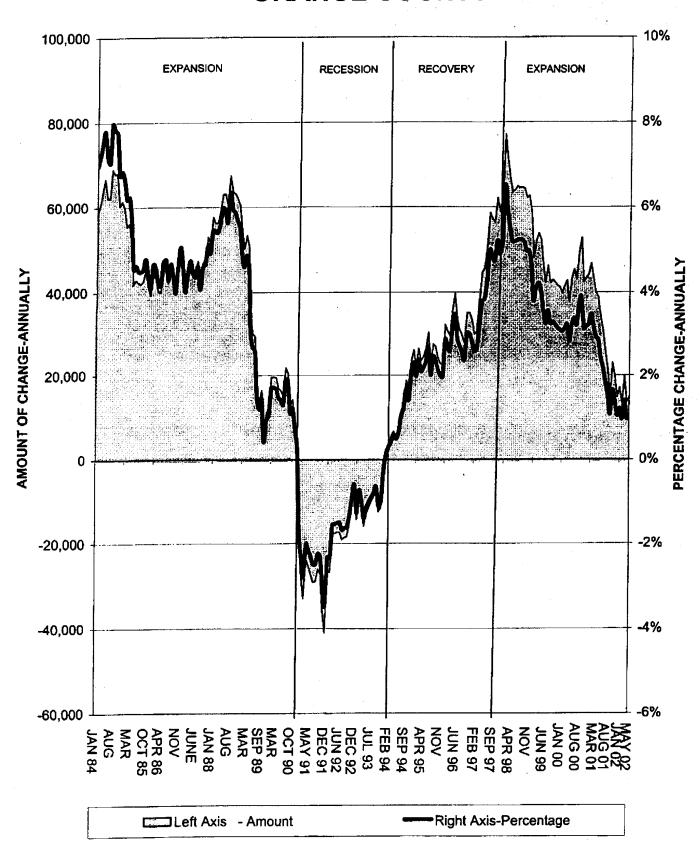
The recent employment and construction activity trends for Orange County are now presented, in order to provide a background on the current economic and real estate conditions within the county, in particular.

The primary determinant underlying construction activity is employment growth, since this generates a demand for additional industrial and office buildings as well as new housing units and also commercial-retail centers. Accordingly, this is now discussed in order to provide a background for understanding the recent construction activity trends in Orange County.

- ➤ Orange County's employment growth was very strong during the 1984 to 1990 time period, with annual increases of some 43,307 jobs per year for growth rates of some 4.39% per year, on the average. However, an economic slowdown which started in 1990 eventually led to a full-fledged recession which lasted from 1991-1993, with job losses of some −18,430 per year. Although an economic recovery started in 1994, its growth was sluggish. Then, during the 1996-2000 time period, employment growth increased by some 48,702 per year for a growth rate of some 3.90% per year, on the average. However, since 2001 the rate of employment growth has moderated, to a level of some 25,406 new jobs per year, for a growth rate of some 1.83% on an annualized basis.
- With respect to the construction of new housing units, Orange County experienced very high levels of activity during 1987-1990, when new housing units attained levels of more than 1,958 single-family and 2,785 multiple-family units/qtr. However, the economic slowdown and recession during 1991-1993 resulted in the levels declining to some 974 single-family and 598 multiple-family units per quarter. Since 1996, and continuing through mid-2002, the levels of new single-family units have increased to some 1,800 per quarter and so it has fully recovered. While multiple-family units, by comparison, have attained levels of only some 974 per quarter, and so this sector has not yet fully recovered.
- With respect to the construction of industrial, office and retail buildings, Orange County also experienced very high levels of activity during 1987-1990, when the valuations were typically some \$231 million per quarter. However, the economic slowdown and recession resulted in the valuations declining to some \$47 million per quarter during 1991-1993. Since 1996, and continuing through mid-2002, valuations have recovered to attain levels of some \$129 million per quarter. However, the commercial-office market is still considered to be in the process of attaining its full-fledged recovery.

Therefore, the recovery of Orange County's economy has resulted in strong levels of employment growth since 1997, and this has enabled the single-family, industrial, and retail sectors to establish their recoveries. But the lingering effects of high vacancy rates in the various real estate sectors, resulting from the very high levels of construction activity in the latter 1980s in conjunction with the decrease in demand in the early 1990s as a result of the economic recession, have resulted in a sluggish recovery for the multiple-family and commercial-office sectors. However, continued employment growth should generate higher levels of construction activity in the multiple-family and commercial-office real estate markets during the foreseeable future.

RECENT EMPLOYMENT TRENDS IN ORANGE COUNTY



COMPETITIVENESS OF CFD NO.90-2 FROM A REGIONAL PERSPECTIVE

From a regional perspective, the competitiveness of CFD No.90-2 is influenced by the development patterns for employment and housing within southern Orange County. Specifically, Business Parks generate industrial-office development while Planned Communities generate residential development which, in turn, generates a demand for Retail Centers; additionally, the flow of traffic between them is facilitated by the freeways and transportation corridors.

> Expansion of Employment Centers and Business Parks

The currently established major employment centers are John Wayne Airport and the Irvine Spectrum (JWA-IS), and most of the employment growth has occurred within these centers. Furthermore, there has been some expansion from these into various Business Parks located in southern Orange County. Specifically, these Business Parks are generally situated along the existing freeways, Route 5 and 405, as well as the recently completed transportation corridors, Foothill/Eastern Transportation Corridor (F/ETC) and San Joaquin Hills Transportation Corridor (SJHTC).

- * The Foothill/Eastern Transportation Corridor (F/ETC) facilitates the northerly-southerly flow of traffic easterly of Route 5; additionally, it is directly linked to the 5/405 freeways near their intersection, also referred to as the El Toro Y.
- * The San Joaquin Hills Transportation Corridor (SJHTC) provides a direct linkage between the JWA employment centers and Aliso Viejo as well as areas to the south; additionally, it is also directly linked to Interstates 5 and also 405.

> Commuting Patterns: Employment Centers to Residential Areas

Many of the households employed in the JWA-IS area reside in southern Orange County, and they typically utilize the 405 and 5 freeways as well as the F/ETC and SJHTC for their commutes.

- * The F/ETC facilitates the commute between the JWA-IS and the Rancho Santa Margarita Area; additionally, it has recently been directly linked to the 5/405 freeways.
- * The commute between JWA and Aliso Viejo has been facilitated by the SJHTC since it is directly linked to the JWA employment centers.

Therefore, the expansions of the existing freeways, Route 5 and 405, and the transportation corridors, F/ETC and SJHTC, have dramatically enhanced the accessibility in southern Orange County, and so this will benefit CFD No.90-2.

For an overview of the established employment centers and the various Planned Communities in south Orange County, please refer to the following exhibit.

DEVELOPMENT POTENTIAL OF PLANNED COMMUNITIES IN THE CFD NO.90-2 COMPETITIVE MARKET AREA

The development potential of the currently/recently active and forthcoming major Planned Communities (400+ housing units) in the CFD No.90-2 Competitive Market Area, southerly portion of Orange County, represents a substantial proportion of the supply of new housing that is expected to enter the marketplace during the foreseeable future. This is significant for the currently active and forthcoming projects in CFD No.90-2, since it reflects the amount of competition that the District's projects will encounter from other competing Planned Communities in the Competitive Market Area.

The characteristics of the currently/recently active and forthcoming Major Planned Communities (PC) in the CFD No.90-2 Competitive Market Area are as follows:

- With respect to the eleven Major Planned Communities that are currently/recently active, including Talega they have a development potential for some 63,795 housing units. Thus far, some 54,160 units (84.9%) of these housing units have been built/occupied, and so there are another 9,635 units (15.1%) remaining for future development. During the 1997-1999 time period, these PC have experienced an absorption rate of some 4,000 housing units per year, on the average. However, during 2000 and 2001, the rate of absorption declined to some 3,000 units per year. Since OC's employment growth and hence the demand for housing were strong during 2000 and 2001, the lower rate of absorption can be attributed to a diminishing supply of product that is available. Aliso Viejo has only apartment units (for-leased) remaining.
- With regards to two forthcoming Major Planned Communities, Pacific Point, and Marblehead, they are expected to have a total of some 834 housing units. However, based upon their current development/planning approval status, these PC are not expected to commence escrow closings until 2003+. Finally, it should be noted that although there is a substantial amount of undeveloped property in the far southeastern portion of the county is not considered in this analysis, since its development potential is subject to obtaining planning/environmental approvals.

Therefore, as these PC approach build-out, there will be a significant reduction in the supply of residential products that are on the marketplace. A comparison of the supply of homes in the currently active projects, some 9,635, with the recent absorption rate, some 3,000 units, reveals that these projects will be built out during the next three years. Consequently, if the current economic and financial market conditions continue to generate a strong demand for housing, then the residential market in south Orange County will encounter a significant shortage due to supply constraints. Thus, the residential market conditions for the currently active and forthcoming PC, are expected to be very favorable.

COMPETITIVENESS ANALYSIS OF PROJECTS IN THE CFD NO. 90-2 (TALEGA) BY MARKET SEGMENTS

The competitiveness of the currently active projects in Talega is now evaluated by comparing them with the currently active projects located within the Competitive Market Area.

There are presently 31active for-sale projects in the CFD No.90-2 Competitive Market Area, including 6 currently active projects in CFD No.90-2 (Talega). Furthermore, these have been partitioned into six distinct market segments: one for attached products priced from \$200,0000-\$300,000+ and five for detached products priced from \$300,000-\$800,000+; accordingly, their characteristics are as follows:

	Number	of Projects	Valu	e Ratios	Special Tax Rates		
	Talega	Other	Talega	Other	Talega	Other	
Market Segments	CFD No. 90-2	Comparables		Comparables		Comparables	
	0	5	N/A	\$185	N/A	0.90%	
Attached	0	5	N/A	\$195	N/A	0.80%	
Detach: \$300-400,000	2	2	\$201	\$187	0.70%	0.90%	
Detach: \$400-500,000		5	\$177	\$184	0.70%	0.78%	
Detach: \$500-600,000	2	5	\$199	\$191	0.70%	0.70%	
Detach: \$600-800,000	 	3	\$195	\$187	0.70%	0.50%	
Detach: \$800,000+	6	25	\$195 ·	\$188	0.70%	0.59%	

Based upon the market surveys of the comparable projects, the competitiveness of the currently active projects in Talega, is now analyzed. for each of the relevant market segments,

Market Segment: Attached

Talega currently has no projects in this market segment; in fact, all of the currently active projects with attached products are in Ladera Ranch. The currently active projects have prices of some \$273,085 for some 1,472 sq.ft. of living area, resulting in a value ratio of some \$185; additionally, their Special Taxes amount to some \$2,458/yr., some 0.90% of their housing prices, on the average.

Market Segments: Detached: \$300,000-\$800,000+

> For homes in the \$300-400,000 market segment, there are currently a total of 5 projects in this segment, and none of these are in Talega. These projects have prices of some \$366,942 for some 1,887 sq.ft. of living area, resulting in a value ratio of some \$195, on the average; additionally, their Special Taxes amount to some \$2,906/yr., some 0.80% of their housing prices, on the average.

- For homes in the \$400-500,000 market segment, there are currently a total of 4 projects in this segment, and 2 of these projects are located in Talega. These projects have prices of some \$452,623 for some 2,339 sq.ft. of living area, resulting in a value ratio of some \$194, on the average; additionally, their Special Taxes amount to some \$3,611/yr., some 0.80% of their housing prices, on the average. Comparing the currently active projects in Talega with the comparable projects in the other PC reveal that their value ratios are significantly higher (\$201 vs. \$187) while their Special Taxes are somewhat lower (0.70% vs. 0.90%).
- For homes in the \$500-600,000 market segment, there are currently a total of 6 projects in this segment, and 1 of these projects is located in Talega. These projects have prices of some \$546,530 for some 3,032 sq.ft. of living area, resulting in a value ratio of some \$183, on the average; additionally, their Special Taxes amount to some \$4,067/yr., some 0.76% of their housing prices, on the average. Comparing the currently active project in Talega with the comparable projects in the other PC reveal that its value ratio is somewhat lower (\$177 vs. \$184) while its Special Tax is slightly lower (0.70% vs. 0.78%).
- For homes in the \$600-800,000 market segment, there are currently a total of 7 projects in this segment, and 2 of these projects are located in Talega. These projects have prices of some \$705,531 for some 3,670 sq.ft. of living area, resulting in a value ratio of some \$193, on the average; additionally, their Special Taxes amount to some \$4,940/yr., some 0.70% of their housing prices, on the average. Comparing the currently active projects in Talega with the comparable projects in the other PC reveal that their value ratios are somewhat higher (\$199 vs. \$191) while their Special Taxes are similar (0.70% vs. 0.70%).
- For homes in the \$800,000+ market segment, there are currently a total of 4 projects in this segment, and 1 of these are located in Talega. These projects have prices of some \$931,619 for some 4,929 sq.ft. of living area, resulting in a value ratio of some \$189, on the average; additionally, their Special Taxes amount to some \$5,087/yr., some 0.55% of their housing prices. Comparing the currently active project in Talega with the comparable projects in the other PC reveal that their value ratios are somewhat higher (\$195 vs. \$187) while their Special Taxes are substantially higher (0.70% vs. 0.50%).

Overall Comparison: All Market Segments

For all of the recently/currently active products types in Talega, as a whole, the value ratios amount to \$195, and this is somewhat above the value ratios of all the currently active projects of some \$188. While the Special Taxes for Talega amount to some 0.70% of their prices, and this is somewhat above the Special Taxes for all of the currently active projects, some 0.59% of their prices.

For additional information on the projects in the Competitive Market Area by the various market segments, please refer to the following table and graphs.

CAMP PENDLETO Trebuco **CFD NO. 90-2 HOUSING MARKET AREA** Coto de Caza Dr FORSTER RANCH NOVI PA Page 17 Costa Mesa

PLANNED COMMUNITIES IN THE

0.50% 0.50% 0.50% 0.70% 0.90% 0.50% 0.50% *77. **1080** 0.90% 0.70% 1 908 4.70X \$080 46 £. 500 8 808 908 R2214 0.90% Speck 24,830 \$3.643 000 \$5.814 12.1 24.578 2 28 \$2,389 52953 1580 87.138 5210 53.617 13,586 \$190 \$172 81180 \$173 ä 1197 2023 22 \$185 \$189 \$183 CHARACTERISTICS OF THE "COMPARABLE" ACTIVE PROJECTS IN THE COMPETITIVE HOUSING MARKET AREA BY MARKET SEGMENTS 25 88 죮 \$162 8168 \$197 22 2 릙 200 5 3 4 4 3236 2.108 2738 2245 2,585 2,300 3,160 2719 2,503 3800 8 90,7 200 8 8 2.116 5,732 8 9 Ħ 4.670 뙭 3.77 8 3 88 1137 170 2,029 2428 8 \$ 3,545 ł 2,896 3400 1376 2,194 3460 252 1,636 1.828 1,852 2.281 2,595 2.727 2,580 2.570 278 3.613 1781 4216 67.50 836 5.216 7 3,570 4.828 3 4134 3.022 1777 Average 8 1628 \$514,656 \$546,935 \$579,215 2,535 3800 ÷ 700 1210 4700 2746 3263 1,380 1393 1283 1,656 ž. 22 173 289 188 78 2 1,978 1,570 272 8 2620 Ħ 262 7.0 8 1387 1.518 8 Ì 915,1958 1966,244 \$919.000 \$969,000 11,125,000 \$743,567 8450,000 \$066,475 \$946,975 \$307.013 \$307.990 \$473,000 \$425,600 \$803.890 \$455,490 S4TE,990 \$757,000 \$306,792 \$575,000 \$613,000 \$776,000 \$206,445 \$272,900 \$342,990 \$357,000 \$398.480 8418.990 5415.990 2480,980 \$524,900 \$314,240 \$228,880 ļ 8631.818 \$430,990 900'999 2308 342 \$548.630 \$706.531 \$645,990 \$728,500 \$273,065 1459,500 2486,800 \$55,000 8304490 1748,000 \$779,990 11,085,000 \$452,623 \$384.490 238.400 \$308,490 \$671,500 246,000 \$306.490 1341,000 \$425,000 \$302,990 A 2000,000 \$1,045,000 9820,0590 8722.000 \$380,000 3804,080 ¥88488 \$667,498 \$373.990 1584.900 9649.500 3714,990 \$761.075 100,120 2347.002 \$525.247 \$360,990 244,000 \$525.000 90 38 606 \$700,000 \$874.994 \$355,990 8418.999 \$400,000 9491.990 \$530,000 8X.8 \$226,000 257,990 3269,990 \$297,990 225,000 239.480 1.015 2 8 3 ŧ × \$ 8 ž 8 * 8 8 ĸ \$ 1251 <u>=</u> 3 \$ 3 2 텰 = 2 2 8 Ξ į 3 2 5 8 片 ÷ Cherry £ ä 22 Ş R 8 Ē £ ä 3 è = 2 0 151 8 # 82 8 2 8 1 112 113 # 된 ¥ ₽ 3 3 8 Detached Townhomes Detached Detached Detached Demothed Detection Detected Detteched Detached Townhorses Detached Detaction Detached Detached Detached Detached Tombones Detection Detached į Standard Pacific Standard Pacific William Lyon Homes Millen Lych Homes Warmington Homes John Lains Homes Warmington Homes landerd Pacific Standard Poeffe. Breekfleid Standard Poots Told Brothern Western Proffic Beazer Homes Shee Homes Certex Homes Toll Brothers Lostfield Shee Horne 5 Lairo Homes D.R. Horton James Compa Į Caloga Galfyry/Benjora Pacifica Summit Front Street Summent Way Farreton fildes Sterling Gen Ciffon Heights Charleston Place Canopy Lane Willow Bend Tems Vide Oak Ver Oak Knot Tether Moon The Knolls Valley Varia Symmorael Contabrie Project City Mirabete St Mars. Greenbrier Woman Astoria September 1 Leders Rench - III Ledera Ranch - IN Ledera Ranch - III Ladera Ranch - III Ladent Ranch . III Ledera Ranch - III Ledera Ranch - III San Josephin Hills Adera Rench - II Adera Ranch - M Leders Ranch - M Attent Rench - IN Ledera Rench - M Ledens Remoth - III Leders Rench - M Sen Joseph Hills Ladora Ranch - II Forster Markande Fornier Highlands Coto de Caza Coto de Caze Coto de Cuza Cofe de Caza Colo de Caza Taloga 3 Telega Page 1 Talege 10 tach: \$404-490,000 tach: \$408-409,880 nect: \$300-400,000 Hegtr, \$500,800,000 Detect: \$300-400,000 Petach: \$400-000,800 Sect. \$400-500,000 rach: \$500-409,860 tech: \$500-600,000 Sect. \$500-500,000 mch: \$500-500,000 tech: \$500-600,000 tach: \$500-600,000 rtach: \$600-600,000 tect: \$600-000,000 Dectr. 9600-600,000 rach: \$600-600,000 Med: \$800-800,000 stects, \$400-600,000 etech: \$600-600,000 29tach: \$300-400,000 Jetsch: \$300-400,000 Mach; \$300-400,000 Which: \$400-500,000 \$480-500,008 Jetach: \$300-400,000 Abached Atached 18ch; \$800,000+ stack: \$400,000+ etach: \$800,000+ etech: \$600,000+ Mach. \$800,000+ Crand Total

EVALUATION OF THE HOUSING PRICES FOR THE CURRENTLY ACTIVE RESIDENTIAL PROJECTS IN CFD NO. 90-2 (TALEGA)

The purpose of this section is to perform a competitive market analysis of the prices and Special Taxes of the currently active residential projects in CFD No.90-2 (Talega).

The evaluation of the prices for the currently active residential products is based upon the following factors:

- > Characteristics of the projects in Talega and the Competitive Market Area.
- > Use of current prices, July 2002.
- > Use base prices exclude potential premiums for lot sizes/views and also potential upgrades.

The prospective purchasers of a home consider the "total" costs of purchasing a home, and this consists of the price of the home as well as the Special Taxes/Assessments related to the home. The following analysis utilizes a statistic referred to as the "adjusted value ratio" which is calculated in the following manner:

<u>Price of the Home + Present Value of the Special Taxes/Assessments</u> Square Footage of Living Area.

The use of the "adjusted value ratio" facilitates the comparison of the "Prices and Special Taxes/Assessments" for homes with different amounts of living area.

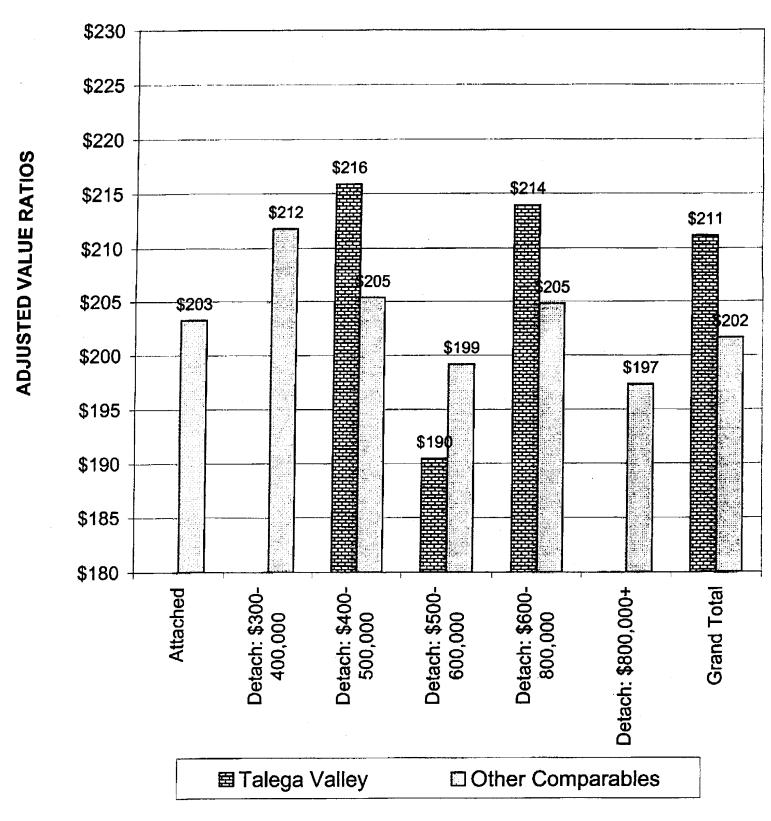
The "adjusted value ratios" for the currently active projects in Talega and the currently active comparable projects in the Competitive Market Area are shown in the following table.

	Adjusted	Value Ratios
Market Segments	Talega	Other
		Comparables
Attached	N/A	\$203
Detach: \$300-400,000	N/A	\$212
Detach: \$400-500,000	\$216	\$205
Detach: \$500-600,000	\$190	\$199
Detach: \$600-800,000	\$214	\$205
Detach: \$800,000+	\$209	\$197
Grand Total	\$211	\$202

So, the adjusted value ratios for currently active projects in Talega is \$211, as a whole, and this is significantly higher than the adjusted value ratios for the other active projects, \$202, as a whole, a difference of \$9 per sq.ft. of living area. However, this differential can be explained by Talega having a superior location, since it is the project in closest proximity to the ocean, and also has a more copious amenity package, based upon its topography of rolling hills and a golf course. Therefore, Empire Economics regards the projects in Talega as being competitively valued in the marketplace.

For additional information on the competitive market price analysis, please refer to the following graph.

COMPETITIVE MARKET ANALYSIS OF LADERA RANCH COMPARISON OF ADJUSTED VALUE RATIOS (PRICE OF HOME + SPECIAL TAXES / LIVING AREA)



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INDUSTRIAL MARKET CONDITIONS SOUTHERN CALIFORNIA AND ORANGE COUNTY

To provide an overview of the recent/current conditions for the industrial market in Southern California (Orange, San Diego, Los Angeles, Riverside, San Bernardino and Ventura counties) and also Orange County, in particular, Empire Economics utilized information from a report prepared by CB Richard Ellis, a major industrial-commercial real estate brokerage firm in Southern California.

- > The Southern California industrial market has some 1,595 million sq.ft. of leasable space; of this, some 241 million sq.ft. is in Orange County, and so the county's market share amounts to some 15.1%.
- > The recent rents for standard industrial space in Southern California and Orange County amount to some \$0.53 and \$0.59 per sq.ft., on a monthly net basis, respectively. Consequently, the rents for industrial space in Orange County are some +\$0.06 per sq.ft. higher than for Southern California as a whole.
- > The monthly industrial rents, including the basic rent for the building along with most of the operating expenses and taxes, for the various Orange County sub-market areas are as follows:

North County: \$ 0.51 West County: \$ 0.63 Airport Area: \$ 0.62 South County: \$ 0.73

So, the rents for industrial space are highest in South County, some \$0.73 vs. \$0.59 for Orange County as a whole. This can be attributed primarily to the substantial amount of new construction activity for industrial buildings in South County, along with the higher costs associated with such buildings, as compared to older industrial buildings.

- > The vacancy rates, defined as the amount of currently available space, for industrial space in Southern California and Orange County amount to 4.07% and 4.20%, respectively. So, Orange County has a slightly higher vacancy rate, by some 0.13%.
- > The vacancy rates, for the various Orange County sub-market areas are as follows:

North County: 3.3% West County: 3.4% Airport Area: 5.3% South County: 5.9%

So, the vacancy rate for industrial property is highest in South County, some 5.9% vs 4.20% for Orange County as a whole. This can be partially attributed to the substantial amount of new construction activity for industrial buildings in South County, and the time required to lease up the new space.

Therefore, the South Orange County industrial market, which includes CFD No.90-2, has significantly higher rents than Orange County and also a slightly higher vacancy rate than Orange County, as a whole. Specifically, this can be attributed to the South Orange County industrial market being comprised of relatively newer industrial buildings, which, in turn, have higher levels of rents due to the construction costs as well as somewhat higher vacancy rates due to the time required to lease up new space.

ESTIMATED ABSORPTION SCHEDULES FOR THE CURRENT AND FORTHCOMING PRODUCTS IN CFD NO.90-2 (TALEGA)

The purpose of this section is to estimate the absorption schedules for the forthcoming residential, commercial-retail/office and business products in CFD No.90-2; accordingly, this is based upon a consideration of the following:

First, the potential demand schedules for the residential, commercial-retail/office, and business products for CFD No.90-2 were derived, based upon a consideration of the following:

- * The growth prospects for the Southern California Market Region, in general, and Orange County, in particular.
- * How much of this growth the CFD No.90-2 Market Area, is expected to capture, in particular.
- * The proportion of the Market Area demand that is expected to be captured by the projects in CFD No.90-2, based upon an evaluation of their competitiveness in the marketplace.

Thus, the result of this analysis is the POTENTIAL demand for the forthcoming residential, commercial-retail/office and business products in CFD No.90-2.

Next, the ability of the forthcoming residential, commercial-retail/office and business products in CFD No.90-2 to respond to this demand is estimated. Accordingly, the infrastructure development schedule for the residential, commercial-retail/office and business products was obtained from Talega Associates, LLC. Specifically, this represents, from a time perspective, when the products will have the infrastructure in place that is required to support their development. So, the result of this analysis is the INFRASTRUCTURE DEVELOPMENT of the properties in CFD No.90-2, and this reflects their ability to respond to the demand in the marketplace.

Then, based upon a consideration of the POTENTIAL demand and the INFRASTRUCTURE DEVELOPMENT, the absorption rate for the residential products in the various market segments and also the commercial-retail/office and business products are calculated, from the year in which the projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units/acres are occupied/utilized.

The application of this algorithm results in the absorption schedules for the products in CFD No.90-2 (Talega); absorption represents the structure being constructed as well as being occupied by a final-user.

Furthermore, the absorption schedule for the forthcoming residential products in CFD No.90-2 takes into consideration the projects that are currently active in Talega.

The residential projects in the CFD No.90-2 (Talega) started construction in 1999, and commenced escrow closings to homeowners in early 2000 with some 946 homes closing their escrows as of July 2002. The estimated absorption schedules for the remaining 2,637 homes as well as the 946 homes that have escrows closed are as follows:

During 2000, 492 homes.

During 2001, 358 homes, due to Phases I and II approaching build-out.

During 2002, 226 homes: 96 homes in January-July and an estimated 130 homes in July-December.

During 2003, 612 homes, as Phases III-IV products enter the marketplace.

During 2004, 635 homes, as additional products enter the marketplace.

During 2005, 641 homes, as the final phases enter the marketplace.

During 2006, 409 homes, as various product lines are built-out.

During 2007, 187 homes, as various product lines are built-out.

During 2008, 23 homes, as the final units are sold.

With respect to the 9.8 acres of commercial-retail/office property, the demand for the retail/office property is based upon the absorption of homes in CFD No.90-2 (Talega), along with the purchasing power of these households. Accordingly, based upon a consideration of these factors, the absorption for commercial-retail/office property is expected to amount to 1.7 acres in 2003, 3.3 acres in 2004, and 4.8 acres in 2005.

With regards to the 58.8 acres of Business Park properties, the absorption is based upon the expansion of Orange County's employment centers into the far southern portion of the county. The absorption of Business Park properties amounted to 20 acres in 2001, 12.5 acres in January-July of 2002 as well as an additional 5 acres is expected to be absorbed in July-December of 2002, some 10 acres per year during 2003-2004, and the remaining 1.3 acres in 2005.

For additional information on the estimated absorption schedules for the residential, commercial-retail/office and business products in CFD No.90-2, please refer to the following tables and graphs.

ESTIMATED ABSORPTION SCHEDULES FOR CFD NO.90-2 (TALEGA)

(ABSORPTION = BUILT AND OCCUPIED BY A FINAL-USER)
(EXCLUDING AGE-RESTRICTED UNITS)
*** AUGUST 1, 2002 SUBJECT TO REVISION ***

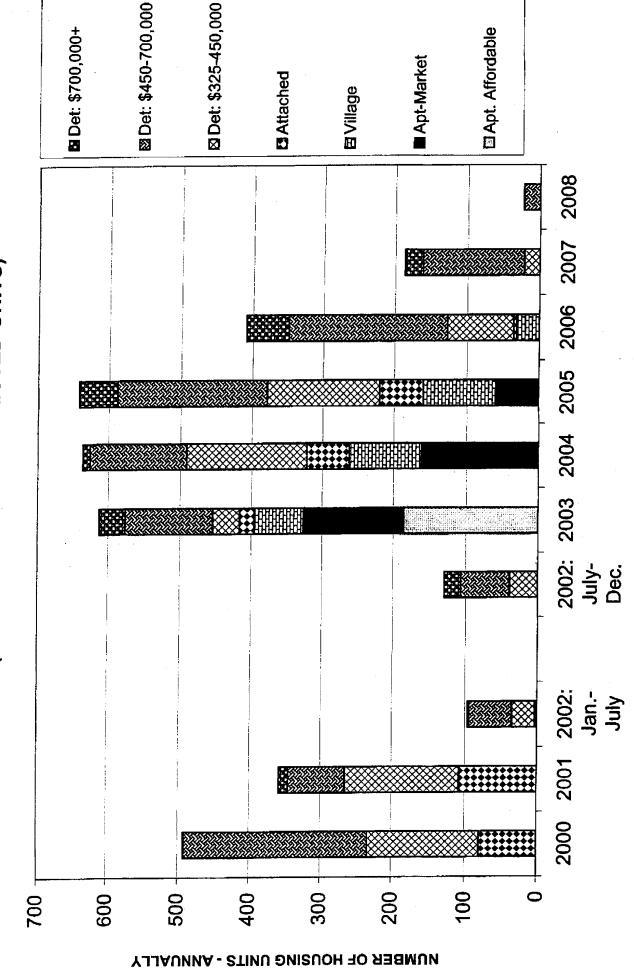
	Seniors	Apartments	Apartments	Village	Attached		Detached		#Jebs*T	-				
	Age	Affordable	Markel	Center		\$325,000	2450 000		3		Ketantomoe	CHICA	Business	658
	Restricted		٠.			\$450,000	\$700,000	\$700 mo	Annually	Culling.	Annuelly	Cumu.	Annually	Cumul.
												1		
Adjustments for CFD No.90-2 Seniors	Removed - 283										æ.		56.8	
Number of Housing Unite														
Units	0	38 2	296	305	338	ě	1314	323						
Share	%0:0	5.2%	10.1%	8.4%	9.3%	24.0%	38.7%	36,24		2967				
Closed Escrows		0	0	0	161	342	387	9		970				
Future Units		186	362	302	<u>‡</u>	519	917	202		2637				
Total		188	362	302	335	28	1,314	233		3.583				
Status Approvals														
County		186	110	0	0	52	3	-	13.0%	466				
City		0	252	302	335	282	1,220	222	87.0%	3117				
RDEB - City Only - Secured		0	o	333	141	190	298	87		1 343				
ROEB - City Only - Required		o	252	57	191	286	622	174		200				
										<u>.</u>				
Housing Characteristics:							A STATE OF THE STA	5 (A) (A) (A) (A) (A) (A) (A) (A) (A) (A)						
Base Prices		Ϋ́N	Ϋ́N	\$270,500	\$296,000	\$397,796	\$549.003	Sans Ren						
Living Areas		1,250	1,250	28.	1,765	2,168	3.133	5897						
Value Ratios: (Price/Area)				\$185	5169	\$184	\$175	\$195						
Special Taxes \$0.971														
(Water & School Districts)														
Amount - Annually		\$1,214	\$1,214	\$1,422	\$1,714	\$2,105	\$3,043	\$4,519						
Percent Price				0.53%	0.58%	0.53%	0.35%	0.50%						
	-													

ESTIMATED ABSORPTION SCHEDULES FOR CFD NO.90-2 (TALEGA)

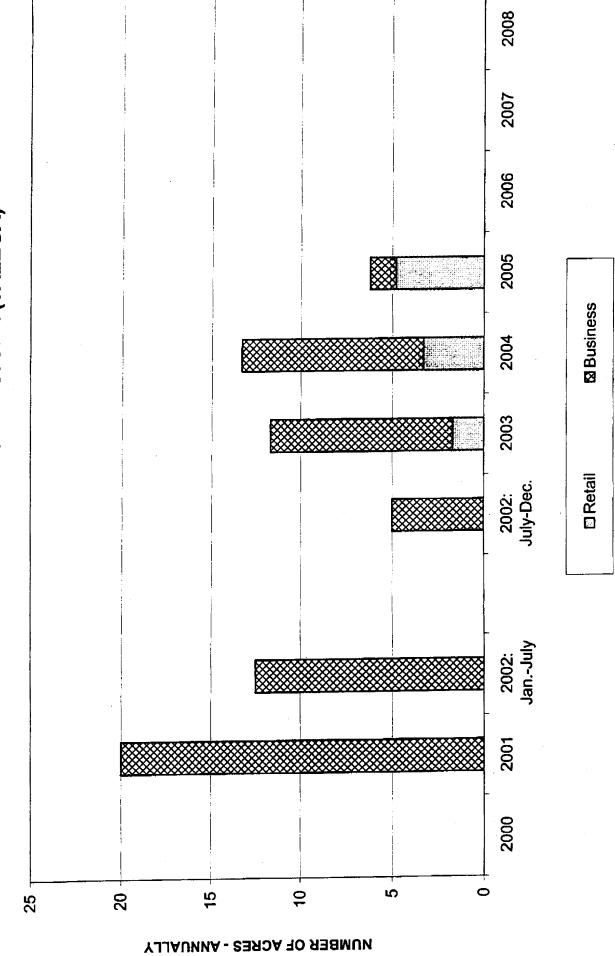
(ABSORPTION = BUILT AND OCCUPIED BY A FINAL-USER) (EXCLUDING AGE-RESTRICTED UNITS) *** AUGUST 1, 2002 SUBJECT TO REVISION ***

	Seniors	Apariments	Apartments	Village	Attached		Detached		. Make		a di Ciliate di			
	ş	Affordable	Market	Certific		000 5025	5450 000	A Paris				2	Dusinese	120
	Restricted					\$450 COO	200'00L	£700.000	Amount	j S	Annally		Annually	Cumul.
						20,000	30/00/2	9/00/000						
											9.8		58.8	
					Annually	lly.								
Absorption: Homeowners	N/A													
2000		0	0	٥	8	153	258	-	492		0.0		6	
2001		O	0	٥	\$	157	88	13	358		0		5 8	
2002 January - July		0	0	o	6	32	65	2	8				0.03	
									3		0.0		12.5	
2002 July - December		٥	0	•	•	8	88	8	18		9			
2003		98	5	6	8	88	122	8	3		0.0		O.C.	
2004		•	182	8	8	89	\$	9	£				0.01	
2005		•	8	ě	8	951	200	2	3		0.0		0.01	
2006		0	0	33	3	8	3 8	3 8	8 8		9		1.3	
2007		•	0	0	•	2	1 2	3 4	Ş		0.0		0.0	
2008		•		0	c	٥	3 2	3	2 2		0.0		0.0	
								>	3		0.0		0.0	
Totals		\$2	362	305	335	198	1.314	223	2 5.82					
				3.00										2 1.00 mm
					Cumulatively	NeV!		The state of the s	* 1 × 1 × 1 × 1 × 1 × 1 × 1 × 1 × 1 × 1					
Absorption: Homeowners	ΝΑ													
2000			0	•	8	53	258	-		492		0.0		6
2001		0	0	0	188	310	338	4		850		0.0		900
2002 January - Jufy		0	0	0	191	342	397	16		948		0.0		32.5
2002 July - December		٥	•	0	<u>5</u>	381	465	39		1,078		0.0		37.5
2003		<u>\$</u>	2	2	211	419	282	75		1,688		1.7		47.5
2004		2	302	0,1	27.1	288	121	982		2,323		5.0		57.5
2005		186	362	270	331	747	930	138		2,984		8.8		58.8
2006		8 2	362	302	335	623	1,151	198		3,373		B'6		58.8
2007		氢	362	302	335	961	1,291	223		995€		9.6		58.8
2008		166	382	302	335	861	1,314	223		3,583		8.6		8.88
Totals		186	362	302	335	861	1,314	223						

EXPECTED RESIDENTIAL ABSORPTION FOR CFD NO. 90-2 (TALEGA) (EXCLUDING AGE-RESTRICTED UNITS)



EXPECTED COMMERCIAL-RETAIL AND BUSINESS PARK ABSORPTION FOR CFD NO. 90-2 (TALEGA)



ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No.90-2 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No.90-2 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

Property Boundaries

No survey or engineering analysis of CFD No.90-2 property has been made by the market analyst; the District's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

Accuracy of Information from Others

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Date of Study

The date to which the conclusions and opinions expressed in this report apply as set forth in the study. Furthermore, the dollar amount of any price/value opinion rendered was based upon the purchasing power of the American dollar existing on that date.

Hidden or Unapparent Conditions

The market analyst assumes no responsibility for hidden or unapparent conditions of the property, subsoil, groundwater or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Opinions of a Legal/Specialized Nature

No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by the market analyst.

Right of Publication of Report

Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the market analyst, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Soil and Geological Studies

No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

Earthquakes and Seismic Hazards

The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

Testimony or Court Attendance

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market analysis, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for the market analyst's time to prepare for and attend any such hearing.

Maps and Exhibits

Maps, plat and exhibits included in this report are for illustration only as an aid in visualizing matters discussed within the report. They should not be considered as surveys, or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from the report.

Environmental and Other Regulations

The property is evaluated assuming it to be in full compliance with all applicable federal, state and local environmental regulations and laws, unless otherwise stated.

Required Permits and Other Governmental Authority

Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

Liability of Market Analyst

The liability of Empire Economics, the market analyst responsible for this report, is limited to the client only and to the fee actually received by the market analyst. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The market analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property--physical, financial, and/or legal.

Presence and Impact of Hazardous Material

Unless otherwise stated in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The evaluation in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a change in the evaluation analysis. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes that subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Structural Deficiencies of Improvements

The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

Presence of Asbestos

The market analyst is not aware of the existence of asbestos in any existing improvements on the subject property. However, the market analyst is not trained to discover the presence of asbestos and assumes no responsibility should asbestos be found in or at the subject property. For the purposes of this report, the market analyst assumes the subject property is free of asbestos and the subject property meets all federal, state and local laws regarding asbestos abatement.

Acreage of Property

The acreage has been abstracted from the documents relating to the District which is assumed to be accurate. If the Assessor's map or legal description is subsequently found to be in error, we reserve the right to amend the market analysis.

Designated Economic Scenario

The Market Absorption Study focuses upon the expected absorption schedules for the products in CFD No.90-2 according to the designated economic scenario. Specifically, this scenario represents the economic and demographic conditions for the Market Region and also the Market Area during the foreseeable future in a realistic-conservative manner which is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No.90-2 rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

Provision of the Infrastructure; Role of Coordinator

The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed products/projects in CFD No.90-2 can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the products/projects could be adversely impacted.

Developer/Builders Responsiveness to Market Conditions

The Market Absorption Study assumes that the developer/builders in CFD No.90-2 respond to the market conditions with products that are competitively priced and have the features/amenities that are desired by the purchasers. This is an especially critical assumption since some of the properties in CFD No.90-2 are currently in an undeveloped condition, and so the specific characteristics of their product types cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future products/projects have prices/features that differ from the competitive market standards, then their absorption schedules would need to be modified from those presented according to the designated economic scenario.

Financial Strength of the Project Developer/Builders

The Market Absorption Study assumes that Project developer/builders in CFD No.90-2 (and also their lenders) have sufficient financial strength to adequately fund their projects, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

Market Absorption Study Timeliness of Results

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic, residential and commercial-retail market conditions that are expected to influence the marketing success of the properties/projects in CFD No.90-2. Nevertheless, the Study should be updated on an annual basis, or even sooner, should these land-use and/or economic market conditions change significantly.

APPENDIX C

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Capistrano Unified School District Community Facilities District No. 90-2 (Talega) ("CFD No. 90-2") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Golf Course Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property," "Taxable Senior Housing Property," "Undeveloped Non-Residential Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 90-2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee, the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with School District, CFD No. 90-2 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 90-2 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the School District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or CFD No. 90-2 for any other administrative purposes of CFD No. 90-2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's Parcel number.

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

- "Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Backup Special Tax" means the Special Tax applicable to each Assessor's Parcel of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Board" means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 90-2.
- "Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 90-2 under the Act.
- "CFD Administrator" means an official of the School District, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.
- "CFD No. 90-2" means Capistrano Unified School District Community Facilities District No. 90-2 (Talega).
- "County" means the County of Orange.
- "Developed Property" means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Taxable Senior Housing Property, for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.
- "Expected Special Tax" means the Special Tax for each Acre of Undeveloped Non-Residential Property, as determined in accordance with Section C below.
- "Fiscal Year" means the period starting July 1 and ending on the following June 30.
- "Golf Course Property" means the area consisting of up to 206.6 acres of the golf course property described and geographically identified in Attachment A to this Rate and Method of Apportionment and in Exhibit A of the Talega Area Plan dated September 8, 1998 for planning areas B, C, G, H, and I, and portions of planning areas D and E, as amended from time-to-time or modified pursuant to a precise site plan for such golf course property.
- "Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.
- "Land Use Class" means any of the classes listed in Table 1.
- "Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Taxable Property.
- "Non-Residential Floor Area" means the total building square footage of the building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides. The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

- "Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.
- "Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.
- "Property Owner Association Property" means any property within the boundaries of CFD No. 90-2 that is owned by or dedicated to a property owner association, including any master or sub-association.
- "Proportionately" means for Developed Property and Taxable Senior Housing Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property and Taxable Senior Housing Property within CFD No. 90-2. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 90-2. For Undeveloped Non-Residential Property, "Proportionately" means the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Non-Residential Property in CFD No. 90-2.
- "Public Property" means any property within the boundaries of CFD No. 90-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.
- "Religious Property" means all property within the boundary of CFD No. 90-2 which is used primarily as a place of worship and is exempt from *advalorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.
- "Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.
- "Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.
- "School District" means the Capistrano Unified School District.
- "Senior Housing Property" means all Assessor's Parcels which are used or intended to be used as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code Section 65995.1. An Assessor's Parcel shall only be designated as Senior Housing Property if Senior Citizen Restrictions have been recorded with respect to such Assessor's Parcel.
- "Senior Citizen Restriction" means a restriction limiting the use of an Assessor's Parcel to senior citizen housing, as defined in Section 65995.1 of the Government Code, under a final map, other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar binding recorded instrument that may not be amended to remove such use limitation without prior written notice to School District.
- "Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Undeveloped Property, Undeveloped Non-Residential Property, Taxable Golf

Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Taxable Senior Housing Property to fund the Special Tax Requirement.

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Golf Course Property" means all of the Assessor's Parcels of Golf Course Property that are not exempt pursuant to Section E below.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.

"Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

"Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.

"Taxable Religious Property" means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.

"Taxable Senior Housing Property" means all Assessor's Parcels of Senior Housing Property that are not exempt pursuant to Section E below.

"Trustee" means the trustee or fiscal agent under the Indenture.

"Undeveloped Non-Residential Property" means, for each Fiscal Year, all Assessor's Parcels that are zoned for commercial or industrial use, and for which no building permit for a commercial or industrial structure has been issued.

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, Taxable Senior Housing Property, or Undeveloped Non-Residential Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 90-2 shall be classified as Developed Property, Taxable Golf Course Property, Taxable Public Property, Taxable Property, Taxable Property, Taxable Property, Undeveloped Non-Residential Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method

of apportionment determined pursuant to Sections C and D below. Developed Property shall be further classified as Residential Property and Non-Residential Property.

Residential Property shall be assigned to Land Use Class 1, Taxable Senior Housing Property shall be assigned to Land Use Class 2, and Non-Residential Property shall be assigned to Land Use Class 3.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property and Taxable Senior Housing Property

a. Maximum Special Tax

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property or Taxable Senior Housing Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class is shown below in Table 1. The Assigned Special Tax for Residential Property and Taxable Senior Housing Property shall be based on the amount of Residential Floor Area on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the amount of Non-Residential Floor Area on the Assessor's Parcel.

TABLE 1

Assigned Special Taxes for Developed Property and Taxable Senior Housing Property
For Fiscal Year 1999-2000Community Facilities District No. 90-2

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3294 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3294 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0599 per square foot of Non-Residential Floor Area.

c. Backup Special Tax

The Fiscal Year 1999-2000 Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property shall equal \$0.1670 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax shall not apply to the first 100 Acres of Non-Residential Property, as determined by the CFD Administrator.

d. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2000, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property

a. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property in CFD No. 90-2 shall be \$6,177 per Acre.

b. <u>Increase in the Maximum Special Tax</u>

On each July 1, commencing on July 1, 2000, the Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

3. Undeveloped Non-Residential Property

a. Expected Special Tax

The Fiscal Year 1999-2000 Expected Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$1,123 per Acre.

b. Maximum Special Tax

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$6,177 per Acre.

c. Increase in the Maximum Special Tax and Expected Special Tax

On each July 1, commencing on July 1, 2000, the Maximum Special Tax and Expected Special Tax for Undeveloped Non-Residential Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

<u>First:</u> The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement.

<u>Second</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Expected Tax for Undeveloped Non-Residential Property, respectively;

<u>Third</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

<u>Fourth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

<u>Fifth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

E. EXEMPTIONS

No Special Tax shall be levied on up to 1,230.74 Acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 Acres of Golf Course Property. In addition, no Special Tax shall be levied on up to 66.02 Acres of Senior Housing Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Golf Course Property, Property Owner Association Property, Public Property, Religious Property or Senior Housing Property. However, should an Assessor's Parcel no longer be classified as Golf Course Property, Property Owner Association Property, Public Property, Religious Property, or Senior Housing Property its tax-exempt status will be revoked.

F. REVIEW/APPEAL COMMITTEE

The Board shall establish as part of the proceedings and administration of CFD No. 90-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 90-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means either \$33,938,000 million in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 90-2 under the authorized bonding program for CFD No. 90-2, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

"Outstanding Bonds" means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 90-2 prior to the date of prepayment.

1. Prepayment in Full

All Assessor's Parcels of Developed Property or Taxable Senior Housing Property and Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 90-2 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure.

Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

Bond Redemption Amount

plus Redemption Premium
plus Future Facilities Amount
plus Defeasance Amount

plus Administrative Fees and Expenses

less Reserve Fund Credit
less <u>Capitalized Interest Credit</u>

Total: equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

- 1. For Assessor's Parcels of Developed Property or Taxable Senior Housing Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
- 2. (a) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 90-2 based on the Developed Property Special Taxes and Taxable Senior Housing Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 90-2, excluding any Assessor's Parcels which have been prepaid, and
 - (b) Divide the Backup Special Tax computed pursuant to paragraph 1 by the estimated Backup Special Taxes at buildout of CFD No. 90-2 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
- 3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
- Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
- 5. Compute the current Future Facilities Costs
- 6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").

- 7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
- 8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
- 9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
- 10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
- Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
- 12. Verify the administrative fees and expenses of No. 90-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
- 13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
- 14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
- 15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
- 16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 90-2.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment

of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 90-2 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Maximum Special Tax on an Assessor's Parcel of Developed Property or Taxable Senior Housing Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

 $PP = P_E F$.

These terms have the following meaning:

PP = the partial prepayment

P_E = the Prepayment Amount calculated according to Section H.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially prepaying the Maximum Annual Special Tax.

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and will charge a fee to the owner requesting prepayment for providing this figure.

With respect to any Assessor's Parcel that is partially prepaid, the School District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 90-2 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2041-42.

(Attachment A describing and identifying the Golf Course Property has been omitted.)

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The following is a summary of certain provisions of the Indenture, as amended by the First Supplemental Indenture. This summary is not to be considered a full statement of the terms of the Indenture and the First Supplemental Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not defined in this summary or elsewhere in the Official Statement have the respective meanings set forth in the Indenture, as amended by the First Supplemental Indenture.

Certain Definitions

Act

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

Administrative Expenses

"Administrative Expenses" means the administrative costs incurred by the School District staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys' fees and other costs related thereto, the fees and expenses of the Fiscal Agent, any fees for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District's compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, costs incurred by the District in pursuit of State funding, and any other costs otherwise incurred by the School District staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Amendment and any obligation of the District under the Indenture.

Administrative Expense Cap

"Administrative Expense Cap" means the amount of \$75,000 with such amount escalating by 2% per Bond Year beginning September 2, 2002, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District, including the Special Reserve Fund.

Annual Debt Service

"Annual Debt Service" means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

Appraisal

"Appraisal" means the appraisal of the taxable property in the District dated August 15, 2001 performed by Bruce Hull & Associates, MAI in connection with the initial sale and issuance of the Bonds.

Authorized Investments

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America ("Direct Obligations").
- (2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - (a) U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

(b) Farmers Home Administration (FmHA)

Certificates of beneficial ownership

- (c) Federal Financing Bank
- (d) Federal Housing Administration Debentures (FHA)
- (e) General Services Administration

Participation certificates

(f) Government National Mortgage Association ("GNMA" or "Ginnie Mae")

GNMA-guaranteed mortgage-backed bonds

GNMA-guaranteed pass-through obligations

(g) U.S. Maritime Administration

Guaranteed Title XI financing

(h) U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

- (3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
 - (a) Federal Home Loan Bank System

Senior debt obligations

(b) Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac")

Participation certificates

Senior debt obligations

(c) Federal National Mortgage Association ("FNMA" or "Fannie Mae")

Mortgage-backed securities and senior debt obligations

(d) Student Loan Marketing Association ("SLMA" or "Sallie Mae")

Senior debt obligations

- (e) Resolution Funding Corp. (REFCORP) obligations
- (f) Farm Credit System Corp. Consolidated system-wide bonds and notes
- (4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor's of AAAm-G, AAAm or AAm, and, if rated by Moody's, rated Aaa, Aa1 or Aa2 (including those of the Fiscal Agent and its affiliates or funds for which the Fiscal Agent or affiliates provide investment advisory or other management services).
- (5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Fiscal Agent on behalf of the Bondholders must have a perfected first security interest in the collateral.
- (6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or which are with a bank rated AA or better by Standard & Poor's and Aa or better by Moody's (including those of the Fiscal Agent and its affiliates).
- (7) Investment Agreements with any corporation, including banking or financial institutions, provided that
 - (a) the long-term debt of the provider of any such investment agreement is rated, at the time of investment, in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and
 - (b) any such investment agreement is collateralized with United States Treasury or agency obligations which at least equal 102% of the principal amount invested thereunder, and

- (c) any such agreement shall include a provision to the effect that, (a) in the event the long-term debt rating of the provider of such agreement is downgraded below one of the two highest rating categories offered by any Rating Agency, (without regard to gradations of plus or minus, or numerical gradations, within such category) (b) in the event of default under such Investment Agreement by such provider, or (c) in the event of a bankruptcy of such provider, the District has the right to withdraw or cause the Fiscal Agent to withdraw all funds invested in such agreement and thereafter to invest such funds pursuant to this Indenture, and
- (d) any such investment agreement permits withdrawal upon three (3) days notice (excepting only the Acquisition and Construction Fund which may provide for seven (7) days notice) for any purpose authorized for the use of the invested funds under this Indenture.
- (8) Commercial paper rated, at the time of purchase, "Prime 1" by Moody's and "A-1" or better by Standard & Poor's.
- (9) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.
- (10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of "Prime 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.
- (11) Repurchase agreements collateralized by Direct Obligations, GNMAs, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's, and "A-1" or "A-" by Standard & Poor's; provided:
 - (a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and
 - (b) the securities are held free and clear of any lien by the Fiscal Agent or an independent third party acting solely as agent ("Agent") for the Fiscal Agent, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, or (iii) a bank approved in writing for such purpose by Financial Guaranty Insurance Company, and the Fiscal Agent shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Fiscal Agent; and
 - (c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Fiscal Agent; and
 - (d) the repurchase agreement has a term of 180 days or less, and the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; and
 - (e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%

(12) Any other investment which the District is permitted by law to make.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Fiscal Agent shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

Authorized Representative of the District

"Authorized Representative of the District" means the Superintendent or any other person or persons designated by the Board of Trustees and authorized to act on behalf of the School District by a written certificate signed on behalf of the School District by the President of the Board of Trustees and containing the specimen signature of each such person.

Bond Year

"Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end of the first September 1 which is not more than 12 months after the Delivery Date.

Business Day

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the City where the corporate trust office of the Trustee is located, are not required or authorized to remain closed.

Certificate of the School District Associate Superintendent, Facilities Planning

"Certificate of the School District Associate Superintendent, Facilities Planning" means a written certificate or requisition executed by the School District Associate Superintendent, Facilities Planning, or his written designee on behalf of the School District.

Certificate of the Special Tax Administrator

"Certificate of the Special Tax Administrator" means a written certificate of David Taussig & Associates in its capacity as the consultant engaged by the School District to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

Code

"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.

Costs of Issuance

"Costs of Issuance" means the costs and expenses incurred in connection with the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds or any Parity Bonds, fees of financial consultants, District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Associate Superintendent, Facilities Planning.

Delivery Date

"Delivery Date" means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

Federal Securities

"Federal Securities" means any of the following:

- (a) Cash
- (b) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS")
- (c) Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself, e.g., CATS, TIGRS and similar securities
- (d) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York and are in book-entry form.
 - (e) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's.
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
 - (i) U.S. Export-Import Bank direct obligations or fully guaranteed certificates of beneficial ownership
 - (ii) Farmers Home Administration certificates of beneficial ownership
 - (iii) Federal Financing Bank
 - (iv) General Services Administration participation certificates
 - (v) U.S. Maritime Administration guaranteed Title XI financing
 - (vi) U.S. Department of Housing and Urban Development (HUD) Project Notes, Local Authority Bonds, New Communities Debentures U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds U.S. government guaranteed public housing notes and bonds.

Fiscal Agent

"Fiscal Agent" means U.S. Bank Trust National 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 the Indenture and any successor thereto.

Fiscal Year

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

Gross Taxes

"Gross Taxes" means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

Independent Financial Consultant

"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 the School District;
- 2. does not have any substantial interest, direct or indirect, in the District or the School District; and
- 3. is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District or the School District.

Maximum Annual Debt Service

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- 1. the principal amount of all Outstanding Bonds and Parity 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 and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

Moody's

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

Near Term Property

"Near Term Property" means real property within the District (i) with respect to which an "A" map creating conveyable parcels has been recorded with the County Recorder, (ii) for which grubbing and clearing are complete; (iii) for which both (A) rough cut and fill are 90% complete, and (B) grading on a materials moved basis is 90% complete; (iv) with respect to which a paved public access road with utilities, other than water and sewer, are completed to within 100 yards of each parcel designated as Near Term Property and, with respect to water and sewer utilities, a final "A" map will serve letter has been executed by Santa Margarita Water District covering all of the Near Term Property; and (v) with respect to which no building permit for residential units or a non-residential building has been issued.

Net Taxes

"Net Taxes" means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax Installments) minus amounts set aside to pay Administrative Expenses.

Outstanding or Outstanding Bonds and Parity Bonds

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

- 1. Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture:
- 2. Bonds and Parity 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 or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and
- 3. Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

Overlapping Debt

"Overlapping Debt" means with respect to any property within the District, the sum of (a) the aggregate amount of all unpaid assessments which are a lien on such property and which are pledged to secure the repayment of bonds, plus (b) a portion of the principal amount of any outstanding bonds of other community facilities districts which are payable at least partially from special taxes to be levied on such property (the "Other CFD Bonds") determined by multiplying the aggregate principal amount of the Other CFD Bonds by a fraction, the numerator of which is the amount of special taxes levied for the Other CFD Bonds on such property and the denominator of which is the total amount of special taxes levied for the Other CFD Bonds on all parcels of property which are subject to the levy of such special taxes, based upon information which is available for the then current Fiscal Year.

Parity Bonds

"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 Supplemental Indenture, rank on a parity with the Bonds. The 2002 Bonds are Parity Bonds.

Person

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

Principal Office of the Fiscal Agent

"Principal Office of the Fiscal Agent" means the office of the Fiscal Agent located in Los Angeles, California 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.

Project

"Project" means those public facilities described in the Resolution of Amendment which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services

and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

Project Costs

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

Rating Agency

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

Rebate Fund

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

Rebate Regulations

"Rebate Regulations" means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

Record Date

"Record Date" means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

Regulations

"Regulations" means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

Reserve Requirement

"Reserve Requirement" means, as of any date of calculation by the District, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds and Parity Bonds.

Resolution of Amendment

"Resolution of Amendment" means Resolution No. 9899-112 adopted by the Board of Trustees of the School District on April 26, 1999, pursuant to which the District amended certain terms pertaining to the District.

RMA

"RMA" means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at the June 14, 1999 election, as amended from time to time.

School District

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

Sinking Fund Payment

"Sinking Fund Payment" means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule therefor set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

Special Taxes

"Special Taxes" means the taxes authorized to be levied by the District in accordance with the Resolution of Amendment, the Act and the voter approval obtained at the June 14, 1999 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds and any Parity Bonds.

Standard & Poor's

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw-Hill, its successors and assigns.

Supplemental Indenture

"Supplemental Indenture" means any supplemental indenture amending or supplementing this Indenture.

Tax Certificate

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

Term Bonds

"Term Bonds" means Bonds which mature on September 1, 2022 and September 1, 2031, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

Underwriter

"Underwriter" means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of the Bonds or an issue of Parity Bonds.

Undeveloped Property

"Undeveloped Property" means taxable real property within the District which is not Developed Property or Near Term Property and with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property.

Nature of Bonds and Parity Bonds

Neither the faith and credit nor the taxing power of the School District, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the District nor general obligations of the

District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Indenture. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the District or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity 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 Net Taxes, and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Indenture and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Board of Trustees of the District nor any persons executing the Bonds, or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds are equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account). Amounts in the Special Tax Fund of the District (other than the Administrative Expense Account therein) constitute a trust fund held for the benefit of the Owners of Bonds and Parity Bonds of the District to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds of the District and so long as any of such Bonds and any such Parity Bonds or interest thereon remain Outstanding are not to be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Net Taxes deposited in the Rebate Fund and the Special Reserve Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Special Reserve Fund, the Acquisition and Construction Fund nor the Administrative Expense Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

Creation of Funds and Accounts

There are created and established under the Indenture the following funds and accounts, maintained by the Fiscal Agent:

- (1) The Community Facilities District No. 90-2 (Talega) Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account) and, within the Reserve Account of the Special Tax Fund, the 2002 Bond Reserve Account, which shall be treated as a part of the Reserve Account for all purposes of the Indenture.
- (2) The Community Facilities District No. 90-2 (Talega) Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).
- (3) The Community Facilities District No. 90-2 (Talega) Special Reserve Fund (the "Special Reserve Fund").
- (4) The Community Facilities District No. 90-2 (Talega) Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Construction Account), and, within the Acquisition and Construction Fund, the 2002 Costs of Issuance Account and the 2002 Project Account.

The Trustee is further authorized and directed by the First Supplemental Indenture to create separate sub-accounts within the accounts of the Special Tax Fund solely for the purpose of separately

accounting for the proceeds of the 2002 Bonds and the Bonds and without affecting the parity nature of the pledge and lien of the Indenture.

The amounts on deposit in the foregoing funds, accounts and subaccounts will be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the Indenture.

In connection with the issuance of any Parity Bonds, the Fiscal Agent, at the direction of an Authorized Representative of the School District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

Deposits to and Disbursements from the Special Tax Fund

The District shall, on each date on which the Special Taxes are apportioned to the District transfer such Special Taxes to the Fiscal Agent. Upon receipt thereof, the Fiscal Agent shall deposit the Special Taxes in the Special Tax Fund to be held in trust. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund;
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Rebate Fund; and
- (7) The Special Reserve Fund.

At the maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Administrative Expense Account

In addition to bond proceeds deposited therein, the Fiscal Agent shall, commencing in Fiscal Year 2001-02, not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District; provided, however, that the total deposit made to the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the District.

Interest Account and Principal Account

The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making any required transfer to the Administrative Expense Account, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

- (a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.
- (b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2003, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account

- been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as described above, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, as described below. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.
- (b) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund, as described above, and to the Redemption Account for Sinking Fund Payments then due, and in accordance with the District's election to call Bonds for optional redemption, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for such Parity Bonds, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.
- (c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender

of such Bonds or Parity Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account

There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The amounts in the Reserve Account shall be applied as follows:

- (a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.
- (b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to above, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.
- (c) In connection with an optional redemption of Parity Bonds in accordance with the Indenture or any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Indenture or any Supplemental Indenture, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for an issue of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on Bonds or an issue of Parity Bonds in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each March 1 and September 1 and transferred to the Interest Account of the Special Tax Fund.

Rebate Fund

The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury.

Special Reserve Fund

After making the transfers described above, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Special Reserve Fund, other than amounts in the Special Tax Fund which the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for the current Fiscal Year. The amounts in the Special Reserve 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.

Acquisition and Construction Fund

- (a) The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance. Amounts for Project Costs or Costs of Issuance shall be disbursed by the Fiscal Agent from the account in the Acquisition and Construction Fund designated in a requisition signed by an Authorized Representative of the District, which must be submitted in connection with each requested disbursement. Amounts for Project Costs shall be disbursed by the Fiscal Agent from the Project Account in the order of priority and in the amounts, to the District, as provided in the Indenture.
- (b) Upon receipt of a Certificate of the Associate Superintendent, Facilities Planning that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Special Tax Fund.

Investments

Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the direction of the District in accordance with the limitations set forth in the Indenture only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments will be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Reserve Fund and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, Notwithstanding anything herein to the contrary, amounts in the Capitalized Interest Subaccount on the Delivery Date for the Bonds and any Parity Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.

Moneys in the Interest Account, the Principal Account, the Redemption Account and the Reserve Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

In the absence of written investment directions from the District, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (4) of the definition thereof.

Covenants of the District

In addition to the covenants described in the body of this Official Statement, so long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District has made 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 and desirable to secure the Bonds and Parity 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 and other amounts deposited to the Special Tax Fund:

<u>Punctual Payment; Against Encumbrances</u>. The District covenants that it will receive all Special Taxes in trust for the Owners and deposit all Special Taxes with the Fiscal Agent immediately upon their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall 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 and Parity 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 the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Parity Bonds issued on a tax-exempt basis for federal income tax purposes and the Bonds will not be adversely affected for federal income tax purposes, 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:

- (a) <u>Private Activity</u>. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code;
- (b) <u>Arbitrage</u>. The District will make no use of the proceeds of the Bonds or any Parity 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 or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code;
- (c) <u>Federal Guaranty</u>. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

- (d) <u>Information Reporting</u>. 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;
- 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 or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes 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 and any applicable Parity Bonds;
- (f) <u>Miscellaneous</u>. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein, including payment of any rebate amounts owing to the United States on the Bonds; and
- (g) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any Bonds or Parity 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. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation ("SYCR"), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.

The Fiscal Agent

U.S. Bank Trust National Association shall be the Fiscal Agent for the Bonds and any Parity Bonds unless and until another Fiscal Agent is appointed by the District under the Indenture. The District may, at any time, appoint a successor Fiscal Agent satisfying the requirements set forth below for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Indenture and to allocate, use and apply the same as provided in the Indenture.

The Fiscal Agent is authorized by the Indenture to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Indenture above, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Indenture. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Fiscal Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Indenture.

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Indenture, and indemnify and save the Fiscal Agent, its officers, directors, employees and agents, harmless against

costs, claims, expenses and liabilities, including, without limitation, fees and expenses of its attorneys, not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Indenture. The foregoing obligation of the District to indemnify the Fiscal Agent shall survive the removal or resignation of the Fiscal Agent or the discharge of the Bonds.

Amendment of or Supplement to the Indenture

Supplemental Indentures or Orders Not Requiring Bondowner Consent

The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, provided that notice shall be given to the Bond Insurer, with copies of such Supplemental indenture delivered to the Bond Insurer and Standard & Poor's, adopt Supplemental Indentures for any of the following purposes:

- 1. to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;
- 2. to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;
- 3. 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;
- 4. to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, 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 or any Parity Bonds then Outstanding;
- 5. to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners; or
- 6. (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 Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Indenture.

Supplemental Indentures or Orders Requiring Bondowner Consent

Exclusive of the Supplemental Indentures described above, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right, subject to receipt of the prior written consent of the Bond Insurer so long as it is not in default under the Bond Insurance Policy with copies of such Supplemental Indenture delivered to the Bond Insurer and Standard & Poor's, to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing 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 or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity

Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture 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 Supplemental Indenture and shall state that a copy thereof is on file at the office of the Fiscal Agent for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. 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 a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity 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 adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments.

Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds

After the effective date of any action taken as above provided, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity 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 or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity 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 of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

Events of Default; Remedies

For all purposes of the provisions of the Indenture relating to events of default and remedies, the Bond Insurer shall be deemed to be the sole holder of the Bonds so long as the Bond Insurer has not failed to comply with its payment obligations under the Bond Insurance Policy.

Events 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 or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;
- (b) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or
- (c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

Remedies

Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

- (a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;
- (b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- (c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in any provision of the Indenture, the Bonds or any Parity 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 and any Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other amounts 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 or any Parity 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 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 herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder

or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

In case the moneys held by the Fiscal Agent after an event of default pursuant to (a) or (b) above shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity 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 or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to 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 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 principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of the Indenture if such Bond or Parity 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 (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity 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, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) 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 or Parity Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity 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 or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant 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, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Upon a defeasance, the Fiscal Agent, upon request of the District, will release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental 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 under the Indenture of all Outstanding Bonds and Parity Bonds, the Fiscal Agent will 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 and Parity Bonds when due. The Fiscal Agent will, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Parity Bonds

Conditions for the Issuance of Parity Bonds and Other Additional District Indebtedness. The District may at any time issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture for any purposes authorized under the Act. Parity Bonds may be issued subject to the following additional specific conditions, which are 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 Supplemental Indenture then in effect and a certificate of the District to that effect shall be 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 and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which will specify the following:
 - (i) 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 payment of all costs and the funding of all reserves incidental to or connected with such refunding;
 - (ii) The authorized principal amount of such Parity Bonds;
 - (iii) The date and the maturity date or dates of such Parity Bonds; provided that (x) each maturity date shall fall on a September 1, (y) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (z) 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;

- (iv) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;
 - (v) The denominations and method of numbering of such Parity Bonds;
- (vi) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;
- (vii) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;
 - (viii) The form of such Parity Bonds; and
- (ix) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.
- (c) The District has 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 Fiscal Agent shall be directed by the District to accept any of such documents bearing a prior date):
 - (i) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;
 - (ii) A written request of the District as to the delivery of such Parity Bonds;
 - An opinion of Bond Counsel and/or general counsel to the District to the effect that (a) (iii) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (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 Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; 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 the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;
 - (iv) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;
 - (v) A certificate from one or more Independent Financial Consultants and a certificate of the Special Tax Administrator which, when taken together, certify that:

- (A) the Value of District Property, with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property as of the date of valuation, is at least three and one-half (3.5) times the sum of the aggregate principal amount of Outstanding Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt with respect to all taxable property in the District;
- (B) the maximum Special Taxes that may be levied on Developed Property (not including any parcels of Developed Property with delinquent Special Taxes and assuming (i) taxation as "Developed Property" as defined in the RMA and (ii) escalation of the maximum Special Taxes as permitted pursuant to the RMA) in each Fiscal Year, is at least equal to 100% of the sum of the then Administrative Expense Cap plus Annual Debt Service in each Fiscal Year on Outstanding Bonds and the Parity Bonds proposed to be issued.
- (vi) Such further documents, money and securities as are required by the provisions of this Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

Conditions for the Issuance of Improvement Area Bonds. The District may at any time issue bonds of an improvement area formed to include all or a portion of the real property within the District (the "Improvement Area") subject to the following additional specific conditions, which are a condition precedent to the issuance of such improvement area bonds:

A certificate from one or more Independent Financial Consultants and/or a Certificate of the Special Tax Administrator which, when taken together, certify that:

- (A) the value of all property in the Improvement Area subject to the Improvement Area special tax, with respect to which all environmental permits which are required to develop the property as then planned have been issued by federal and state agencies having jurisdiction over the property as of the date of valuation is at least 3 times the sum of the aggregate principal amount of allocable outstanding Improvement Area bonds, Improvement Area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds, in each case allocable to such property, and the Overlapping Debt with respect to all taxable property in the improvement area;
- the value of property in the Improvement Area subject to the Improvement Area special tax for which a building permit has been issued ("Developed Improvement Area Property") is at least 3½ times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the outstanding Improvement Area bonds, Improvement Area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds which is allocable to the Developed Improvement Area Property (collectively, the "Debt for Developed Property"). For this purpose, there will be allocated to the Developed Improvement Area Property the largest principal amount of Debt for Developed Property that results in (1) the maximum special taxes that may be levied on Developed Improvement Area Property (not including any parcels of Developed Improvement Area Property with delinquent special taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of annual debt service on such Debt for Developed Improvement Area Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Developed Improvement Area Property for such Fiscal Year of taxation and (2) a value of Improvement Area Developed Property at least 3½ times greater than the sum of Debt for Developed Property plus Overlapping Debt allocable to Developed Improvement Area Property;
- (C) the value of Near Term Property in the Improvement Area is at least three (3) times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of

the outstanding Improvement Area bonds, improvement area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds, in each case which are allocable to the Near Term Property in the Improvement Area (collectively, the "Debt for Near Term Property"). For this purpose, there will be allocated to the Near Term Property in the Improvement Area the largest principal amount of Debt for Near Term Property that results in (1) the maximum special taxes that may be levied on Near Term Property in the Improvement Area (not including any parcels of Near Term Property with delinquent Special Taxes and assuming taxation as "Developed Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Debt for Near Term Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Near Term Property for such Fiscal Year of taxation and (2) a Value of Near Term Property at least 3 times greater than the sum of all Debt for Near Term Property plus Overlapping Debt allocable to Near Term Property; and

the value of Undeveloped Property is at least 21/2 times the sum of the Overlapping Debt allocable thereto, plus that portion of the aggregate principal amount of the outstanding Improvement Area bonds, Improvement Area bonds proposed to be issued (excluding the portion of such bonds to be escrowed, if any), Outstanding Bonds and Parity Bonds, in each case which is allocable to the Undeveloped Property (collectively, the "Debt for Undeveloped Property"). For this purpose, there will be allocated to the Undeveloped Property in the Improvement Area the largest principal amount of Debt for Undeveloped Property that results in (1) the maximum Special Taxes that may be levied on Undeveloped Property in the Improvement Area (not including any parcels of Undeveloped Property with delinquent Special Taxes and assuming taxation as "Undeveloped Property" as defined in the RMA) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Debt for Undeveloped Property in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Undeveloped Property in the Improvement Area for such Fiscal Year of taxation and (2) a Value of Undeveloped Property in the Improvement Area at least 21/2 times greater than the sum of Debt for Undeveloped Property plus Overlapping Debt allocable to Undeveloped Property in the Improvement Area; provided, however, that no parcel of property may be included in any of the foregoing determinations if there is, at the time of any such determination, a delinquency in the payment of any ad valorem real property taxes or Special Taxes levied on such parcel. Administrative Expenses in each Fiscal Year shall be deemed to be equal to actual Administrative Expenses for each of Developed Property, Near Term Property and Undeveloped Property, respectively, for the last Fiscal Year ending prior to the date of calculation of Parity Debt.

The amount of Improvement Area bonds permitted to be issued shall be the largest integral multiple of \$5,000 that is not greater than the remainder of (a) the sum of (w) the amount of improvement area bonds proposed to be issued that will be escrowed, (x) the Debt for Developed Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (B) above, (y) the Debt for Near Term Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (C) above, and (z) the Debt for Undeveloped Property, as specified in the Certificate of the Special Tax Administrator delivered pursuant to (D) above, less (b) the then aggregate principal amount of then outstanding Improvement Area bonds, Outstanding Bonds and Parity Bonds.

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APPENDIX E

FORM OF BOND COUNSEL'S OPINION

[Closing Date], 2002

Board of Trustees Capistrano Unified School District San Juan Capistrano, California

Re: \$17,605,000 Community Facilities District No. 90-2 of the Capistrano Unified School

District (Talega), 2002 Special Tax Bonds

Honorable Members of the Board of Trustees:

We have examined the Constitution and laws of the State of California, a certified record of the proceedings of the Capistrano Unified School District (the "School District") taken in connection with the formation of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and the authorization and issuance of the District's 2002 Special Tax Bonds in the aggregate principal amount of \$17,605,000 (the "Bonds") and such other information and documents as we may consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the School District, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 et seq. of the Government Code of the State of California, Resolution No. 0203-38 adopted by the Board of Trustees of the School District, acting in its capacity as the legislative body of the District, on October 7, 2002, a Bond Indenture dated as of October 1, 2001, between the District and U.S. Bank Trust National Association, as fiscal agent (the "Fiscal Agent"), and a First Supplemental Bond Indenture dated as of November 1, 2002, by and between the District and the Fiscal Agent (collectively, the "Indenture"). All capitalized terms not defined herein shall have the meanings set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each March 1 and September 1, commencing March 1, 2003, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all other matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except as the same 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; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses. The Bonds are limited obligations of the District but are not a debt of the School District, the County

Board of Trustees
Capistrano Unified School District
_______, 2002
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of Orange, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the District, the School District, the County of Orange, the State of California or any other political subdivision is pledged to the payment thereof.

- (2) The Indenture has been duly executed and delivered by the District. The Indenture creates a valid pledge of, and the Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture, except as the same 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.
- (3) Under existing statutes, regulations, rulings and judicial decisions, 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 calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.
 - (4) Interest on the Bonds is exempt from State of California personal income tax.
- (5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. Original issue discount that accrues to the Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (as described in paragraph (3) above), and is exempt from State of California personal income tax.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the Bonds are subject to the condition that the District and the School District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest and original issue discount will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest and original issue discount on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the School District have covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4) and (5) above, we express no opinion as to any tax consequences related to the Bonds.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

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The Indenture and the Tax Certificate executed by the District and the School District with respect to the Bonds as of the date hereof permit certain actions to be taken or omitted if a favorable opinion of Bond Counsel is provided with respect thereto. We express no opinion as to the exclusion from gross income of interest and original issue discount on the Bonds for federal income tax purposes on and after the date on which any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds, and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX F

CONTINUING DISCLOSURE AGREEMENT

On October 31, 2001, the date of the issuance of the Prior Bonds, the District and the Fiscal Agent, as Dissemination Agent, entered into the Continuing Disclosure Agreement that is set forth below. On the date of delivery of the Bonds, the District and the Fiscal Agent, as Dissemination Agent, will enter into the Amendment to Continuing Disclosure Agreement that is set forth in this Appendix F immediately following the Continuing Disclosure Agreement (the "Amendment"). The Amendment amends and supplements the Continuing Disclosure Agreement to make it applicable to the Bonds, as well as the Prior Bonds, and requires the inclusion in the Annual Reports which will be filed pursuant to the Continuing Disclosure Agreement of information that is specific to the Bonds.

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement") is executed and delivered by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "Issuer") and U.S. Bank Trust National Association, as Fiscal Agent and as dissemination agent, in connection with the issuance and delivery by the Issuer of its Series 2001 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution of the Issuer, adopted on October 1, 2001, approving the issuance of the Bonds and that certain Bond Indenture executed pursuant thereto (the "Indenture"). The Issuer and U.S. Bank Trust National Association, as Fiscal Agent and dissemination agent, covenant as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and U.S. Bank Trust National Association for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule. The Dissemination Agent has entered into this Disclosure Agreement at the express direction of the Issuer evidenced by the Issuer's signature to this Disclosure Agreement. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Disclosure Agreement.

SECTION 2. <u>Definitions</u>. 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.

"Disclosure Representative" shall mean the Assistant Superintendent, Facilities Planning, of the Capistrano 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, U.S. Bank Trust 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, NJ 08542-0840
(609) 279-3225
FAX (609) 279-5962
Internet address: Munis@bloomberg.com

Standard & Poor's
J.J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
(212) 438-4595
FAX (212) 438-3975
Internet address: nrmsir_repository@sandp.com

DPC Data Inc.
NRMSIR
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701
FAX (201) 947-0107
Internet address: nrmsir@dpcdata.com

Interactive Data Attn: NRMSIR 100 William Street New York, NY 10038 (212) 771-6999 FAX (212) 771-7390

Internet address: NRMSIR@interactivedata.com

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds. The Participating Underwriter is UBS PaineWebber Inc. whose address is: 777 South Figueroa Street, 50th Floor, Los Angeles, CA 90017.

"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 upon written direction to, not later than six (6) months after the end of the Issuer's fiscal year, commencing with the report for the fiscal year ending June 30, 2001, 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 twelve (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. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

- (b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).
- (c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the 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 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. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.
- (e) The Issuer shall, or if received by the Dissemination Agent, the Dissemination Agent shall, deliver a copy of each Annual Report to the Participating Underwriter at the time that the Annual Report is provided to the Repositories in accordance with this Section.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

- (1) The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended;
- (2) An update of the information contained in the table contained under the heading "SECURITY FOR THE BONDS" in the Official Statement for the Bonds in the section entitled "Direct and

Overlapping Debt" (but only to the extent that additional debt secured by the payment of taxes or assessments levied on parcels within the District has been issued or incurred);

- (3) An update of the information contained in the tables in the section under that heading entitled "Summary of Appraised Values and Certain Public Debt" (based on assessed values and the actual tax levy for the current fiscal year in the form of a table or tables showing categorical value-to-lien ratios for all of the taxable property in the District);
- (4) A table providing delinquency information including total Special Tax levy, taxes delinquent as of June 30 of the fiscal year in which Special Taxes were levied, and the current amount delinquent;
- (5) The date and amount of expenditures from the Project Account, the date and amount of any withdrawal from the Reserve Account of the Special Tax Fund and the date and amount of any withdrawal of Bond amounts from any investment agreement due to downgrade in the rating of the provider thereof and a description of the reinvestment of such amounts;
- (6) The number of building permits issued for the construction of single family homes on property within the District in the preceding fiscal year and prior to November 1 of the calendar year in which such fiscal year ends;
- (7) The number of single family homes within the District for which the Talega Joint Planning Authority, the City of San Clemente or the County or Orange issued permits or gave approvals permitting occupancy by homeowners in the preceding fiscal year and prior to November 1 of the calendar year in which such fiscal year ends;
- (8) Information regarding the number of parcels of property in the District as to which the County Assessor's assessment roll for the current fiscal year shows a change in ownership from the home builder to a homeowner as compared to the assessment roll for the preceding fiscal year and the total number of parcels of property in the District which according to the assessment roll are owned by persons other than a home builder;
- (9) Information regarding the full cash value of all of the land and improvements, as determined by the County Assessor within the District, as shown on the Assessor's assessment roll ("assessed value"), for the fiscal year as to which the Annual Report is being filed, including the number of lots for which the assessed value is for land only and the number of lots for which the assessed value is for both land and improvements and the total amount of such assessed value for each such category. For all fiscal years after the first fiscal year in which the assessed value for all lots in the District includes both land and improvements, the Annual Report shall include only the total amount of the assessed value for all lots in the District;
- (10) An update on the status of the construction of the school facilities to be financed with the proceeds of the Bonds;
- (11) Any change to the Rate and Method of Apportionment of Special Tax for the District set forth in Appendix "C" to the Official Statement;
- (12) Information regarding proceedings for the designation of any improvement area of the District or the formation of any community facilities district or assessment district that includes a portion of the property in the District and the authorization of additional bonded indebtedness for the District or bonded indebtedness for any such community facilities district or assessment district to finance public facilities and, if any such bonds are issued, information regarding the issuance of the bonds, the amount thereof and the facilities which will be financed with the proceeds of such bonds; and

(13) All annual information required to be filed by the District with the California Debt and Investment Advisory Commission pursuant to Section 53359.5(b) of the Act and relating generally to outstanding Bond amounts, Indenture fund balances, assessed values, special tax delinquencies and foreclosure information which has not been reported pursuant to the requirements above.

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 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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the 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) non-payment related defaults;
 - (3) unscheduled draws on the Reserve Account 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 provider of such letter of credit or municipal bond insurance policy 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 Bonds;
 - (9) defeasances;
 - (10) any release, substitution, or sale of property securing repayment of the Bonds; and

- (11) rating changes.
- (b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.
- (c) 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 (e).
- (d) If 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 (e).
- (e) 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) the National Repositories, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) 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 (e) prior to the occurrence of such Listed Event.
- (f) The Issuer 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. <u>Termination of Reporting Obligation</u>. The obligations 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. <u>Dissemination Agent.</u> The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank Trust National Association. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Fiscal Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. (a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners of the Bonds, 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) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, 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 of the Bonds, 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 at least 25% of the outstanding Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, 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 hereunder.
- (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 effect 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 Disclosure 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. <u>Default.</u> In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any 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 to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. <u>Duties</u>; <u>Immunity and Liability of Fiscal Agent and Dissemination Agent</u>. Section 7.4 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 shall be entitled to the same protections, limitations from liability and indemnities 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 no other duties shall be implied hereunder, and the Issuer agrees to indemnify and save the Dissemination Agent and the Fiscal Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities (whether or not litigated) which either may incur arising out of or in the exercise or performance of the powers

and duties provided 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 have no responsibility or liability whatsoever for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The Dissemination Agent shall not be deemed to be the agent of or fiduciary to the Issuer. 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 and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Owners of the Bonds, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and the 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 hereunder, 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. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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

Disclosure Representative: Assistant Superintendent

Facilities Planning

Capistrano Unified School District

32972 Calle Perfecto

San Juan Capistrano, CA 92675

Dissemination Agent: U.S. Bank Trust National Association

550 South Hope Street, Suite 500

Los Angeles, CA 90071 Attn: Corporate Trust

Fiscal Agent: U.S. Bank Trust National Association

550 South Hope Street, Suite 500

Los Angeles, CA 90071 Attn: Corporate Trust 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.

COMMINITY FACILITIES DISTRICT NO. 90-2 OF THE

Date: October 31, 2001	COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)
	By: Assistant Superintendent, Facilities Planning
Date: October 31, 2001	U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent and Fiscal Agent
	By: Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)			
Name of Bond Issue:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2001 Special Tax Bonds			
Date of Issuance:	October 31, 2001			
NOTICE IS HEREBY GIVEN that Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "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 October 31, 2001, by and between the District and U.S. Bank Trust National Association, as Fiscal Agent and dissemination agent. The District anticipates that the Annual Report will be filed by Dated:				
	U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent			
cc: Community Facilities Di	strict No. 90-2 of the Capistrano Unified School District (Talega)			

AMENDMENT TO CONTINUING DISCLOSURE AGREEMENT

THIS AMENDMENT TO CONTINUING DISCLOSURE AGREEMENT (this "Amendment") is executed and delivered by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "Issuer") and U.S. Bank, N.A., as Fiscal Agent and as dissemination agent, in connection with the issuance and delivery by the Issuer of its 2002 Special Tax Bonds (the "Bonds"). The Bonds are being issued pursuant to a resolution of the Issuer, adopted on October 7, 2002, approving the issuance of the Bonds and that certain Supplemental Bond Indenture executed pursuant thereto (the "Supplemental Indenture"). The Issuer and U.S. Bank, N.A., as Fiscal Agent and dissemination agent, covenant as follows:

SECTION 1. Purpose of the Amendment. This Amendment is being executed and delivered for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Act of 1934, as the same may be amended from time to time. This Amendment is also being executed and delivered for the purpose of amending and supplementing the Continuing Disclosure Agreement between the Issuer and U.S. Bank, N.A., as Dissemination Agent, dated as of October 31, 2001, relating to the Series 2001 Special Tax Bonds of the Issuer. The Dissemination Agent has entered into this Amendment at the express direction of the Issuer evidenced by the Issuer's signature to this Amendment. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Amendment and the Disclosure Agreement.

SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Indenture (as hereinafter defined) and the Disclosure Agreement (as also hereinafter defined) which apply to any capitalized term used in this Amendment, 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 the Disclosure Agreement.

"Disclosure Agreement" shall mean the Continuing Disclosure Agreement executed and delivered by the Issuer and the Dissemination Agent on October 31, 2001 relating to the Series 2001 Special Tax Bonds of the Issuer.

"Indenture" shall mean the Bond Indenture between the Issuer and U.S. Bank, N.A., as Fiscal Agent, dated as of October 1, 2001, relating to the Prior Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds. The Participating Underwriter is UBS PaineWebber Inc. whose address is: 77 South Figueroa Street, 50th Floor, Los Angeles, CA 90017.

"Prior Bonds" shall mean the Series 2001 Special Tax Bonds of the Issuer.

SECTION 3. General. Whenever the terms "Owner," "Owners," "Owner of the Bonds" or "Owners of the Bonds" are used in the Disclosure Agreement, such terms shall refer to the Owners of the Prior Bonds and the Owners of the Bonds.

SECTION 4. Amendment of Sections 3 and 4.

- (a) Sections 3 and 4 of the Disclosure Agreement are amended to require the inclusion in the Annual Reports to be filed by the Dissemination Agent of the following additional information:
 - (1) An update of the information contained in the tables in the section entitled "SECURITY FOR THE BONDS" under the heading entitled "Summary of Appraised Values and Certain Public Debt" (based on assessed values and the actual tax levy for the current fiscal year in the form of a table or tables showing categorical value-to-lien ratios for all of the taxable property in the District).
- (b) Each Annual Report filed by the Fiscal Agent, as Dissemination Agent, with each Repository, after the date of this Amendment, shall specify that it relates to both the Prior Bonds and the Bonds.
- (c) Pursuant to subsection (c) of Section 3 of the Disclosure Agreement, if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required is subsection (a) of Section 3, the Dissemination Agent shall send, in addition to the notice required by said subsection (c), a notice to each Repository in the form attached hereto as Exhibit A.
- SECTION 5. <u>Amendment of Section 5</u>. The term "Bonds," as used in the Section 5 of the Disclosure Agreement shall be construed to include the Prior Bonds and the Bonds for all purposes of said Section 5.

SECTION 6. <u>Incorporation</u>. All of the provisions of Sections 6 through 13 of the Disclosure Agreement are incorporated herein as though set forth fully herein. This Amendment shall be considered and construed as amending and supplementing the Disclosure Agreement.

Date:	November 7, 2002	COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)
		By: Associate Superintendent, Facilities Planning
Date:	November 7, 2002	U.S. BANK, N.A., as Dissemination Agent and Fiscal Agent
		By: Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)
Name of Bond Issue:	COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) 2002 SPECIAL TAX BONDS
Date of Issuance:	November 7, 2002
School District (Talega) (the "D Bonds as required by Section 3 of between the District and U.S. Amendment to Continuing Dis	GIVEN that Community Facilities District No. 90-2 of the Capistrano Unified istrict") has not provided an Annual Report with respect to the above-named of the Continuing Disclosure Agreement, dated as of October 31, 2001, by and Bank, N.A., as Fiscal Agent and dissemination agent, as amended by the sclosure Agreement entered into by the District and the Fiscal Agent, as November 7, 2002. The District anticipates that the Annual Report will be filed
Dated:	
	U.S. BANK, N.A., as Dissemination Agent

cc: Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)

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APPENDIX G

DEVELOPER DISCLOSURE AGREEMENT

On October 31, 2001, the date of the issuance of the Prior Bonds, Talega Associates and the Fiscal Agent, as Dissemination Agent, entered into the Continuing Disclosure Agreement that is set forth below. On the date of the delivery of the Bonds, Talega Associates and the Fiscal Agent, as Dissemination Agent, will enter into the Amendment to Continuing Disclosure Agreement that is set forth in this Appendix G immediately following the Continuing Disclosure Agreement (the "Amendment"). The Amendment amends and supplements the Continuing Disclosure Agreement to make it applicable to the Bonds, as well as the Prior Bonds.

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), is executed and entered into as of October 31, 2001, by and among U.S. Bank Trust National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America (the "Bank"), in its capacity as Dissemination Agent (the "Dissemination Agent") and in its capacity as Fiscal Agent (the "Fiscal Agent"), and Talega Associates, LLC, a limited liability company organized and existing under and by virtue of the laws of the State of Delaware (the "Developer");

WITNESSETH:

WHEREAS, pursuant to the Bond Indenture, dated as of October 1, 2001 (the "Indenture"), by and between Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and the Fiscal Agent, the District has issued the Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2001 Special Tax Bonds (the "Bonds"), in the aggregate principal amount of \$23,050,000.

WHEREAS, the Bonds are payable from and secured by special taxes levied on certain of the property within the District;

WHEREAS, the Developer is the owner of a substantial portion of the property within the District and is developing such property as a master planned community; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Developer and the Bank for the benefit of the owners and beneficial owners of the Bonds and in order to assist the underwriters of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. <u>Definitions</u>. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 25% or more of the outstanding voting securities of such other Person, (b) any Person 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

"Annual Report" means any Annual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is the first day of the fifth month after the end of the Developer's fiscal year, which date, as of the date of this Disclosure Agreement, is May 1.

"Assumption Agreement" means an agreement between a Major Developer, or an Affiliate thereof, and the Fiscal Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide annual reports and notices of significant events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

"Development Plan" means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to such Major Developer's Property in order for such Property to reach the Planned Development Stage, the time frame in which such improvements are intended to be made and the estimated costs of such improvements; the Developer's Development Plan, as of the date hereof, is described in the Official Statement under the caption "THE DEVELOPMENT PROJECT - Development Plan."

"Disclosure Representative" means the Chief Financial Officer of the Developer, or such other person as the Developer shall designate in writing to the Fiscal Agent from time to time.

"Dissemination Agent" means the Bank, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Fiscal Agent a written acceptance of such designation.

"Event of Bankruptcy" means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person's debts or obligations, or offers to such Person's creditors to effect a composition or extension of time to pay such Person's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of sixty (60) days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person's creditors.

"Financing Plan" means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan; the Developer's Financing Plan, as of the date hereof, is described in the Official Statement under the caption "THE DEVELOPMENT PROJECT - Plan for Financing Development."

"Financial Statements" means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business or a purchaser of property from such Major Developer) identified in such Major Developer's Financing Plan as a source of funding for such Major Developer's Development Plan or, where such funding by such entity, enterprise, fund, account or other person is to be provided or is guaranteed by another entity, enterprise, fund, account or other person, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of such other entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business or

a purchaser of property from such Major Developer); provided that, if such financial statements or reports are otherwise prepared as audited financial statements or reports, then Financial Statements means such audited financial statements or reports.

"Listed Events" means any of the events listed in Section 4(a) hereof.

"Major Developer" means, as of any date, any Property Owner, including the Developer, that owns Property that has not reached the Planned Development Stage that, together with Property that has not reached the Planned Development Stage owned by Affiliates of such Property Owner, is subject to 20% or more of the Special Tax levy for the then current Fiscal Year.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" means the Official Statement, dated October 19, 2001, relating to the Bonds.

"Participating Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds. The Participating Underwriter is UBS PaineWebber Inc. whose address is: 777 South Figueroa Street, 50th Floor, Los Angeles, CA 90017.

"Person" means an individual, a corporation, a partnership, an association, a limited liability company, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

"Planned Development Stage" means, with respect to any portion of the Property, the stage at which rough grading has been substantially completed and major backbone infrastructure has been brought to the edge of the parcel constituting such portion of the Property.

"Property" means the real property within the boundaries of the District that is not exempt from the Special Taxes.

"Property Owner" means any Person that owns a fee interest in any Property.

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Semiannual Report" means any Semiannual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

"Semiannual Report Date" means the date in each year that is the first day of the eleventh month after the end of the Developer's fiscal year, which date, as of the date of this Disclosure Agreement, is November 1.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. <u>Provision of Annual Reports and Semiannual Reports</u>. (a) The Developer shall, or, upon receipt of the Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing May 1, 2002. The Developer shall, or, upon receipt of the Semiannual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository a Semiannual Report

which is consistent with the requirements of Section 3 hereof, not later than the Semiannual Report Date, commencing November 1, 2002. The Annual Report or Semiannual 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 3 hereof; provided, however, that the audited financial statements of the Developer, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Developer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(b) hereof.

- (b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report or the Semiannual Report to the Repositories, the Developer shall provide the Annual Report or the Semiannual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Fiscal Agent has not received a copy of the Annual Report or the Semiannual Report, the Fiscal Agent shall contact the Disclosure Representative and the Dissemination Agent to inquire if the Developer is in compliance with the first sentence of this subsection (b).
- (c) If the Fiscal Agent is unable to verify that an Annual Report or a Semiannual Report has been provided to the Repositories by the date required in subsection (a), the Fiscal Agent shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, 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 or the Semiannual Report the name and address of each National Repository and each State Repository, if any;
- (ii) provide any Annual Report or Semiannual Report received by it to each Repository, as provided herein; and
- (iii) file a report with the Developer and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report or the Semiannual 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.
- (e) The Developer shall, or if received by the Dissemination Agent, the Dissemination shall, provide an Annual Report or a Semiannual Report to the Participating Underwriter at the time such Annual Report or Semiannual Report is provided to the Repositories in accordance with this Section.
- Section 3. <u>Content of Annual Reports and Semiannual Reports</u>. The Developer's Annual Report and Semiannual Report shall contain or incorporate by reference the following (except that clause (a) below pertains only to the Annual Reports):
- (a) Financial Statements for each Major Developer prepared in accordance with generally accepted accounting principles, as in effect from time to time. If audited Financial Statements are prepared, and such audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 2(a) hereof, the Annual Report shall contain unaudited Financial Statements, and the audited Financial Statements shall be filed in the same manner as the Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

- (b) The following information with respect to each Major Developer:
- (i) If information regarding such Major Developer has not previously been included in an Annual Report, a Semiannual Report or in the Official Statement, the Development Plan of such Major Developer or, if information regarding such Major Developer has previously been included in an Annual Report or in the Official Statement, a description of the progress made in the Development Plan of such Major Developer since the date of such information and a description of any material changes in such Development Plan and the causes or rationale for such changes.
- (ii) If information regarding such Major Developer has not previously been included in an Annual Report, a Semiannual Report or in the Official Statement, the Financing Plan of such Major Developer or, if information regarding such Major Developer has previously been included in an Annual Report, a Semiannual Report or in the Official Statement, a description of any material changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.
- (iii) A description of any sales of portions of such Major Developer's Property (other than to individual home buyers) during the fiscal year covered by such Annual Report or, in the case of a Semiannual Report, during the portion of the fiscal year covered by such Semiannual Report, including the identification of each buyer (other than such a home buyer) and the number of acres sold; provided, however, that sales of five (5) or fewer acres may be aggregated for the purpose of such description.
- (iv) A description of how many acres of the Property were owned by such Major Developer as of the end of the fiscal year covered by such Annual Report or in the case of a Semiannual Report, at the end of the portion of the fiscal year covered by such Semiannual Report, how many acres of such Major Developer's Property reached the Planned Development Stage during such fiscal year and how many acres of such Major Developer's Property had not reached the Planned Development Stage as of the end of such fiscal year or such portion of such fiscal year.
- (v) Information regarding the status of the issuance of the 404 Permit and the other permits and approvals discussed under the heading "404 Permit and Streambed Alteration Agreement" in the section of the Official Statement entitled "THE DEVELOPMENT PROJECT."
- (vi) Information regarding proceedings for the designation of any improvement area of the District or the formation of any community facilities district or assessment district that includes a portion of the property in the District and the authorization of additional bonded indebtedness for the District or bonded indebtedness for any such community facilities district or assessment district to finance public facilities and, if any such bonds are issued, information regarding the issuance of the bonds, the amount thereof and the facilities which will be financed with the proceeds of such bonds.
- (vii) An update of the status of any previously reported Listed Event described in Section 4 hereof.
- (c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Major Developers that are Affiliates of each other may file a single Annual Report or Semiannual Report covering all such entities. Any or all of the items listed above may be included by specific reference to other documents 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 Developer shall clearly identify each such other document so included by reference.

Section 4. <u>Reporting of Significant Events</u>. (a) Pursuant to the provisions of this Section 4, the Developer shall promptly give, or cause to be given notice of the occurrence of any of the following events with respect to each Major Developer:

- (i) Any failure of such Major Developer, or any Affiliate of such Major Developer, to pay when due general property taxes, special taxes or assessments (including any assessment installment) with respect to its Property.
- (ii) Any material payment default by such Major Developer or any Affiliate of such Major Developer on any loan secured by such Major Developer's Property which is beyond any applicable cure period for such loan.
- (iii) The occurrence of an Event of Bankruptcy with respect to such Major Developer, or any Affiliate of such Major Developer, that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay Special Taxes when due.
- (b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly notify the Dissemination Agent, the Fiscal Agent and the District in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (c). The Developer shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.
- (c) If the Dissemination Agent has been instructed by the Developer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriters.
- Section 5. <u>Assumption of Obligations</u>. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate thereof. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement.

Section 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement shall terminate upon the earliest to occur of (a) the date on which no Property Owner is a Major Developer, or (b) the date on which (i) the Developer is no longer a Major Developer and (ii) the Developer no longer has any obligations under this Disclosure Agreement with respect to any remaining Property as a result of such obligations having been assumed under one or more Assumption Agreements entered into pursuant to Section 5 hereof, or (c) the date on which all of the Bonds have been legally defeased, redeemed, or paid in full. The Developer's obligations under this Disclosure Agreement with respect to a Major Developer shall terminate upon the earliest to occur of (x) the date on which such Major Developer is no longer a Major Developer, as defined herein, or (y) the date on which the Developer's obligations with respect to such Major Developer are assumed under an Assumption Agreement entered into pursuant to Section 5 hereof; provided however, upon the occurrence of either of the events described in clauses (x) and (y), the Developer's obligations hereunder with

respect to each other Major Developer, if any, shall remain in full force and effect. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. <u>Dissemination Agent</u>. The Developer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Developer and the Fiscal Agent. The Dissemination Agent shall have no duty to prepare any Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Developer in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall be the Dissemination Agent. If the Dissemination Agent is other than the Fiscal Agent, the Developer shall be responsible for paying the fees and expenses of the Dissemination Agent.

Section 8. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Agreement, the Developer, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Developer, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver (i) is approved by owners of sixty percent (60%) of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of the owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Reports is amended pursuant to the provisions hereof, the first Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the effect of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing Financial Statements, the annual financial information for the year in which the change is made shall present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the effect of the change in the accounting principles on the presentation of the Financial Statements or information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations, including its obligation to pay debt service on the Bonds. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4 hereof.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Developer 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 Developer 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 Developer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event. It is expressly understood and agreed that the Dissemination Agent shall have no duty whatsoever to commence or continue, at any time, any due diligence (applying the Developer's interpretation to such term) in connection with any matter hereunder and further, to the extent the Dissemination Agent shall undertake to obtain information, such action shall not, under any circumstances, be deemed to increase the scope of the Dissemination Agent's duties hereunder or under any financing document.

Section 10. <u>Default.</u> In the event of a failure of the Developer or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or 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 Developer or the Fiscal Agent, as the case may be, 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 Developer or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties; Immunity and Liability of Fiscal Agent and Dissemination Agent. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. The Dissemination Agent has entered into this Disclosure Agreement at the direction of the Issuer as evidenced by the Issuer's signature to this Disclosure Agreement. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose under this Disclosure Agreement other than the performance of its duties hereunder. The Developer agrees to indemnify and save each of the Fiscal Agent and the Dissemination Agent, and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it or they may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability (whether or not litigated), but excluding liabilities due to the Fiscal Agent's or the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no responsibility or liability for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Developer as to the materiality of any event for purposes of Section 4 hereof. Neither the Fiscal Agent nor the Dissemination Agent makes any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Developer's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters 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. <u>Notices</u>. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Developer:	Talega Associates, LLC 951 Calle Negocio, Suite D San Clemente, CA 92673	
Dissemination Agent:	U.S. Bank Trust National Association 550 South Hope Street, Suite 500 Los Angeles, CA 90071 Attn: Corporate Trust	
Fiscal Agent:	U.S. Bank Trust National Association 550 South Hope Street, Suite 500 Los Angeles, CA 90071 Attn: Corporate Trust	
Section 14. <u>Counterparts</u> . This which shall be an original and all of w	s Disclosure Agreement may be executed in several counterparts, each of thich shall constitute but one and the same instrument.	
Section 15. Merger. Any per corporate trust business shall be the su act.	son succeeding to all or substantially all of the Dissemination Agent's ccessor Dissemination Agent without the filing of any paper or any further	
	he parties hereto have executed this Disclosure Agreement as of the date	
	TALEGA ASSOCIATES, LLC, a Delaware limited liability company	
	By:	
	Title:	
	U.S. BANK TRUST NATIONAL ASSOCIATION, as Fiscal Agent	
	By: Authorized Signatory	
	U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent	
	By: Authorized Signatory	

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)
Name of Bond Issue:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2001 Special Tax Bonds
Date of Issuance:	October 31, 2001
Annual Report with resp dated as of October 31,	
LLC	U.S. BANK TRUST NATIONAL ASSOCIATION, as Dissemination Agent, on behalf of Talega Associates,
cc: Talega Associates I	

AMENDMENT TO CONTINUING DISCLOSURE AGREEMENT

THIS AMENDMENT TO CONTINUING DISCLOSURE AGREEMENT (this "Amendment") is executed and delivered as of November 7, 2002, by and among U.S. Bank, N.A., a national banking association organized and existing under the laws of the United States of America, in its capacity as Dissemination Agent (the "Dissemination Agent") and in its capacity as Fiscal Agent (the "Fiscal Agent"), and Talega Associates, LLC, a limited liability company organized and existing under and by virtue of the laws of the State of Delaware (the "Developer"). This Amendment is entered into in connection with the issuance and delivery by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "Issuer") of its 2002 Special Tax Bonds (the "Bonds"). The Issuer and U.S. Bank, N.A., as Fiscal Agent and Dissemination Agent, covenant as follows:

Section 1. Purpose of the Amendment. This Amendment is being executed and delivered for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Act of 1934, as the same may be amended from time to time. This Amendment is also being executed and delivered for the purpose of amending and supplementing the Continuing Disclosure Agreement between the Developer and U.S. Bank, N.A., as Dissemination Agent and Fiscal Agent, dated as of October 31, 2001, relating to the Series 2001 Special Tax Bonds of the Issuer. The Dissemination Agent has entered into this Amendment at the express direction of the Developer evidenced by the Developer's signature to this Amendment. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Amendment and the Disclosure Agreement.

Section 2. <u>Definitions</u>. In addition to the definitions set forth in the Indenture (as hereinafter defined) and the Disclosure Agreement (as also hereinafter defined) which apply to any capitalized term used in this Amendment, 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 Developer pursuant to, and as described in, Sections 2 and 3 of the Disclosure Agreement.

"<u>Disclosure Agreement</u>" shall mean the Continuing Disclosure Agreement executed and delivered by the Developer and the Dissemination Agent on October 31, 2001 relating to the Prior Bonds.

"Indenture" shall mean the Bond Indenture between the Issuer and U.S. Bank, N.A., as Fiscal Agent, dated as of October 1, 2001, relating to the Prior Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds. The Participating Underwriter is UBS PaineWebber Inc. whose address is: 777 South Figueroa Street, 50th Floor, Los Angeles, California 90017.

"Prior Bonds" shall mean the Series 2001 Special Tax Bonds of the Issuer.

Section 3. <u>General</u>. Whenever the terms "Owner," "Owners," "Owner of the Bonds" or "Owners of the Bonds" are used in the Disclosure Agreement, such terms shall refer to the Owners of the Prior Bonds and the Owners of the Bonds.

Section 4. Amendment of Sections 2 and 3.

- (a) Sections 2 and 3 of the Disclosure Agreement are amended to require that each Annual Report filed by the Fiscal Agent, as Dissemination Agent, with each Repository, after the date of this Amendment, shall specify that it relates to both the Prior Bonds and the Bonds.
- (b) Pursuant to subsection (c) of Section 2 of the Disclosure Agreement, if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a) of Section 2, the Dissemination Agent shall send, in addition to the notice required by said subsection (c), a notice to each Repository in the form attached hereto as Exhibit A.
- Section 5. <u>Amendment of Section 4</u>. If pursuant to Section 4 of the Disclosure Agreement, the Developer is required to give notice of the occurrence of any of the events specified therein with respect to each Major Developer, any such notice shall specify that it applies both to the Prior Bonds and to the Bonds.
- Section 6. <u>Incorporation</u>. All of the provisions of Sections 6 through 15 of the Disclosure Agreement are incorporated herein as though set forth fully herein. This Amendment shall be considered and construed as amending and supplementing the Disclosure Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first above written.

compai	ny
By:	
Title:	
U.S. B.	ANK, N.A., as Fiscal Agent
Ву:	Authorized Signatory
U.S. B.	ANK, N.A., as Dissemination Agent
By:	Authorized Signatory

TALEGA ASSOCIATES, LLC, a Delaware limited liability

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)
Name of Bond Issue:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) 2002 Special Tax Bonds
Date of Issuance:	November 7, 2002
Annual Report with res	EREBY GIVEN that Talega Associates, LLC (the "Developer") has not provided an spect to the above-named Bonds as required by the Continuing Disclosure Agreement, , 2001, by and among U.S. Bank Trust National Association, in its capacity as Fiscal y as Dissemination Agent, and the Developer. The Developer anticipates that the Annual
Dated:	U.S. BANK, N.A., as Dissemination Agent, on behalf of Talega Associates, LLC

cc: Talega Associates, LLC

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INSURED RATINGS: S&P: "AAA" Moody's: "Aaa" (See "RATINGS" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See "TAX MATTERS" herein.

County of Orange State of California

\$44,980,000 COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2006 SPECIAL TAX REFUNDING BONDS

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds (the "Bonds") are being issued and delivered to (i) refund the \$23,050,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) 2001 Special Tax Bonds currently outstanding in the principal amount of \$22,885,000 (the "2001 Bonds"), (ii) refund the \$17,605,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) 2002 Special Tax Bonds (the "2002 Bonds," and together with the 2001 Bonds, the "Prior Bonds") currently outstanding in the principal amount of \$17,605,000, (iii) fund the portion of the reserve requirement for the Bonds not funded by the Reserve Policy, and (iv) pay the costs related to the issuance of the Bonds. Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") has been formed by the Capistrano Unified School District (the "School District") and is located in southern Orange County.

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 are being issued pursuant to that certain Bond Indenture, dated as of June 1, 2006 (the "Indenture"), by and between the District and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) levied on and collected from the owners of the taxable land within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" 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. See APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" herein.

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2006.

The Bonds are subject to optional, mandatory redemption and mandatory redemption from prepayment of Special Taxes prior to maturity as described herein. See "THE BONDS — Redemption" herein.

Principal of, premium, if any, and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See "THE BONDS — Description of the Bonds" and APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" herein.

Neither the faith and credit nor the taxing power of the School District, 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 general obligations of the District but are limited obligations of the District payable solely from Special Taxes and certain other amounts held under the Indenture as more fully described herein.

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY" and APPENDIX F—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" herein.

Ambac

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 with respect to the Bonds.

MATURITY SCHEDULE (See Inside Cover Page.)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriter. 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 June 8, 2006.

UBS INVESTMENT BANK

Dated: May 23, 2006

MATURITY SCHEDULE \$25,975,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP No.†
2006	\$ 765,000	4.000%	3.53%	139708AA9
2007	395,000	4.000	3.56	139708AB7
2008	460,000	4.000	3.61	139708AC5
2009	525,000	4.000	3.67	139708AD3
2010	595,000	4.000	3.70	139708AE1
2011	670,000	4.000	3.73	139708AF8
2012	750,000	4.000	3.82	139708AG6
2013	835,000	4.000	3.90	139708AH4
2014	920,000	4.000	4.00	139708AJ0
2015	1,005,000	4.250	4.06	139708AK7
2016	1,110,000	4.500	4.17	139708AL5
2017	1,215,000	4.500	4.25 ^(c)	139708AM3
2018	1,325,000	4.250	4.35	139708AN1
2019	1,440,000	4.375	4.44	139708AP6
2020	1,570,000	4.375	4.50	139708AQ4
2021	1,695,000	4.400	4.55	139708AR2
2022	1,835,000	4.400	4.60	139708AS0
2023	1,975,000	4.500	4.63	139708AT8
2024	2,130,000	4.500	4.64	139708AU5
2025	2,295,000	4.500	4.66	139708AV3
2026	2,465,000	4.500	4.68	139708AW1

\$8,535,000 4.625% Term Bonds due September 1, 2029 - Price: 4.770% CUSIP† No. 139708AX9 \$10,470,000 4.625% Term Bonds due September 1, 2032 - Price: 4.800% CUSIP† No. 139708AY7

[†] CUSIP® is a registered trademark of the American Bankers Association. Copyright© 1987-2006 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. None of the District, the School District or the Underwriter takes any responsibility for the accuracy of such numbers.

⁽c) Priced to the optional call at par on September 1, 2016.

CAPISTRANO UNIFIED SCHOOL DISTRICT COUNTY OF ORANGE, CALIFORNIA

BOARD OF TRUSTEES

Marlene M. Draper, President Crystal Kochendorfer, Vice President Mike Darnold, Member Shelia J. Henness, Member Sheila J. Benecke, Member Dr. Duane E. Stiff, Member John J. Casabianca, Clerk

SCHOOL DISTRICT ADMINISTRATORS

Dr. James A. Fleming, Superintendent David A. Doomey, Deputy Superintendent, Administration

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation Newport Beach, California

SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc. Newport Beach, California

VALUATION CONSULTANT

Empire Economics Capistrano Beach, California

FISCAL AGENT

U.S. Bank National Association Los Angeles, California

VERIFICATION AGENT

Grant Thornton, LLP Minneapolis, Minnesota

Except where otherwise indicated, all information contained in this Official Statement has been provided by the School District and the District. No dealer, broker, salesperson or other person has been authorized by the School District, the District, 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, the District, 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. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the School District or the District. 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 the 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.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

Other than with respect to information concerning Ambac Assurance Corporation, contained under the caption "FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY" and Appendix F— "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest with respect to the Bonds.

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\$44,980,000 COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) SERIES 2006 SPECIAL TAX REFUNDING 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 \$44,980,000 Community Facilities District No. 90-2 Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds (the "Bonds"). The proceeds of the Bonds will be used to (i) refund the \$23,050,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) 2001 Special Tax Bonds currently outstanding in the principal amount of \$22,885,000 (the "2001 Bonds"), (ii) refund the \$17,605,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) 2002 Special Tax Bonds (the "2002 Bonds," and together with the 2001 Bonds, the "Prior Bonds") currently outstanding in the principal amount of \$17,605,000, (iii) fund the portion of the reserve requirement for the Bonds not funded by the Reserve Policy, and (iv) pay the costs related to the issuance of the Bonds.

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 are being issued pursuant to a Indenture by and between Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and U.S. Bank National Association (the "Fiscal Agent"), dated as of June 1, 2006 (the "Indenture"). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined therein) and all moneys on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account therein).

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 this 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 herein shall have the meanings set forth in APPENDIX B—"SUMMARY OF THE INDENTURE—Definitions" herein.

The District

General. The District was formed in 1990. The District comprises approximately 2,149 gross acres within the southwesterly portion of the County of Orange (the "County"), and all but approximately 97 acres are within the City of San Clemente. The remaining property will be annexed into the City of San Clemente as building permits are issued. At buildout, the District is planned to contain approximately 3,866 residential units, approximately 9.78 acres containing approximately 162,000 square feet of commercial retail uses and approximately 68.6 acres containing approximately 1,007,000 square feet of business park uses. As of March 1, 2006, the District contained approximately 3,133 residential parcels for which building permits have been issued, of which approximately 2,834 completed residential units have been issued a Certificates of Occupancy (a "C of O"), and approximately 52.70 acres of non-residential property containing approximately 787,310 square feet commercial and industrial space. The District is located entirely within the School District. See "THE COMMUNITY FACILITIES DISTRICT." The bonds issued by the District on behalf of Improvement Area No. 2002-1 are not being refunded by the Bonds. See "THE COMMUNITY FACILITIES DISTRICT —Direct and Overlapping Debt" below.

Formation Process. The School District formed the District in 1990 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.

Pursuant to the Act, the Board of Trustees of the School District (the "Board") adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following a public hearing conducted pursuant to the provisions of the Act, the Board adopted resolutions establishing the District, determining to incur bonded indebtedness and calling special elections to submit the authorization of the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On June 19, 1990, at an election held pursuant to the Act, the landowner which comprised the qualifying elector within the District authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed \$10,000,000 and approved the rate and method of apportionment of Special Taxes within the District (the "Special Taxes") to pay the principal of and interest on the bonds of the District.

On April 26, 1999, the Board of Trustees adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the District. On June 14, 1999, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes" herein. The rate and method of apportionment of special tax, as amended, is set forth in Appendix A hereto (the "Rate and Method"). The Board acts as the legislative body of the District. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Rate and Method of Apportionment of Special Taxes" and APPENDIX A— "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." The Bonds are being issued for the purpose of refunding the District's Prior Bonds. See "PLAN OF FINANCE."

Property Values.

Summary. As of January 1, 2005 (the most recent date for which assessed values are available), the assessed value for taxable property within the District was \$1,584,649,814 (the "1/1/05 Assessed Value"). In order to estimate a more recent property value in the District, the District has engaged Empire Economics to estimate the amount by which property values in the District increased during the period from January 1, 2005 through February 28, 2006 and to determine adjusted property values in reflecting such increase, as described below. Only the value for homes sold between January 1, 2005 through February 28, 2006 of the District is included in the Incremental Value (as defined below). The sum of (i) the 1/1/05 Assessed Value for the District (\$1,584,649,814), plus (ii) the March 15, 2006 Incremental Value (defined below) for the District (\$252,121,455) is \$1,836,771,269, the total estimated value of the property in the District (the "Total Adjusted Value").

Assessed and Incremental Values. Empire Economics has prepared a report entitled "Incremental Values for Recently Sold Homes (Recent Sales Prices Since January 1, 2005 Verses Assessed Values as of January 1, 2005" dated March 16, 2006 (the "Incremental Value Report") which utilizes statistical sampling to infer the amount by which the aggregate property value as of March 15, 2006 for homes sold between January 1, 2005 through February 28, 2006 of the District is greater than the 1/1/05 Assessed Value (the "Incremental Value"). Only the value for homes sold between January 1, 2005 through February 28, 2006 of the District is included in the Incremental Value. Pursuant to the Incremental Value Report, the Incremental

Value is estimated to be \$252,121,455 which, when combined with the \$1,584,649,814 1/1/05 Assessed Value for the District, totals an adjusted value for the District of \$1,836,771,269 as of March 15, 2006 (the "Adjusted Value"). See "THE COMMUNITY FACILITIES DISTRICT—Property Value" and APPENDIX G—"INCREMENTAL VALUE REPORT" herein.

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 the District pursuant to the Act and in accordance with the Rate and Method. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." Under the Indenture, the District has pledged to repay the Bonds from Special Tax Revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Taxes") and from amounts on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account therein) established under the Indenture.

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 in certain funds under the Indenture, including amounts held in the Reserve Account therein. See "SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund" herein.

Foreclosure Proceedings. The District has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor's parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all Assessor's parcels with delinquent Special Taxes by the October 1 following the close of any fiscal year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in an amount in excess of \$10,000, so long as (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (b) with respect to the Bonds, or any Parity Bonds, the District is not in default in the payment of the principal of and interest on the Bonds or any such Parity Bonds. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenants to Foreclose; Proceeds of Foreclosure Sales."

See also "THE COMMUNITY FACILITIES DISTRICT—Property Value," "—Direct and Overlapping Debt" and "—Estimated Assessed Value-to-Lien Ratios" herein. There is no assurance that the property within the District can be sold for the estimated values described herein, 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 current or future landowners within the District. See "SPECIAL RISK FACTORS—Land Values" herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE INDENTURE, AS MORE FULLY DESCRIBED HEREIN.

Issuance of Parity Bonds

Pursuant to the Indenture, the District has covenanted not to issue additional bonds payable from the Special Tax Revenues or amounts in the funds and accounts established under the Indenture except for the purpose of refunding the Bonds. See APPENDIX B—"SUMMARY OF THE INDENTURE" herein.

Financial Guaranty Insurance Policy and Reserve Policy

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy (the "Financial Guaranty Insurance Policy") to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the issuance of the Bonds. See "FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY" and APPENDIX F—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" herein. Concurrently with the issuance of the Financial Guaranty Insurance Policy, the Insurer will also deliver its Reserve Fund Policy (the "Reserve Policy") to satisfy 50% of the Reserve Requirement with respect to the Bonds. See "SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund," and "FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY—Reserve Policy" herein.

Description of the Bonds

The Bonds in the aggregate principal amount of \$44,980,000 are authorized to be issued by the District under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California. The Bonds will be issued as fully registered bonds, without coupons, in book-entry form in the denominations of \$5,000 or any integral multiple thereof.

Payments. Interest on the Bonds accrues from the date of delivery of the Bonds at the rates set forth on the inside cover page hereto, and is payable semiannually on each March 1 and September 1, commencing September 1, 2006. The principal amount of the Bonds is payable at maturity upon surrender of the Bonds for payment.

Registration. The Bonds will be issued in fully registered form only, 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 set forth on the cover page hereof, under the book-entry only 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. See APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" herein.

Redemption. The Bonds are subject to optional, mandatory redemption and mandatory redemption from prepayment of Special Taxes prior to maturity. See "THE BONDS—Redemption" herein.

Tax Matters

In the opinion of Bond Counsel, under existing law, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants set forth in the Indenture 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 D 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 the tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see "TAX MATTERS" herein.

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California, will act as Fiscal Agent under the Indenture, as the initial Dissemination Agent under the Continuing Disclosure Agreement and as Escrow Bank under the Escrow Agreements. The legal proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, Riverside, California, as Underwriter's Counsel. Other professional services have been performed by

David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, Empire Economics, Inc., Capistrano Beach, California, as Valuation Consultant and Grant Thornton, LLP, 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

The District 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 certain financial information and operating data on an annual basis. The District has further agreed to provide, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE" herein, Appendix D hereto for a description of the specific nature of the annual reports to be filed by the District and notices of material events and a copy of the continuing disclosure agreement pursuant to which such annual reports are to be made. The District has never failed to comply with Rule 15c2-12 in any of its previous undertakings.

Bond Owners' Risks

Certain events could affect the timely repayment of 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 Board, acting as the legislative body of the District, 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 and other documents and information referred to herein are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the School District at 32972 Calle Perfecto, San Juan Capistrano, California 92675, Attention: Deputy Superintendent, Administration.

PLAN OF FINANCE

The Bonds are being issued to (i) refund the Prior Bonds currently outstanding in the aggregate principal amount of \$40,490,000, (ii) fund the portion of the Reserve Requirement not funded with the Reserve Policy, and (iii) pay costs of issuance.

Pursuant to two Escrow Agreements, each dated as of June 1, 2006 (the "Escrow Agreements"), by and between the District and U.S. Bank National Association, as Escrow Bank (the "Escrow Bank") a portion of the proceeds of the Bonds together with funds held by the fiscal agent for the Prior Bonds shall be deposited

into the Escrow Funds established thereunder. Moneys in the Escrow Funds, together with interest earnings thereon, will be in an amount necessary to pay when due the regularly scheduled principal of and interest on (i) the 2001 Bonds through September 1, 2011, and on September 1, 2011 pay the redemption price of the remaining outstanding principal amount of the 2001 Bonds, and (ii) the 2002 Bonds through September 1, 2013, and on September 1, 2013 pay the redemption price of the remaining outstanding principal amount of the 2002 Bonds. Moneys on deposit in the Escrow Funds will be invested by the Escrow Bank in Federal Securities or held uninvested in cash, all as further provided in the Escrow Agreements. Upon the issuance of the Bonds, Grant Thornton, LLP, will deliver a report verifying the sufficiency of the moneys deposited in the Escrow Funds. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected uses of Bond proceeds:

Sources of Funds	
Principal Amount of Bonds	\$ 44,980,000.00
(Net Original Issued Discount)	(619,787.70)
Transferred Moneys ⁽¹⁾	 6,511,708.22
TOTAL SOURCES	\$ 50,871,920.52
<u>Uses of Funds</u>	
Project Account of the Acquisition and	\$ 1,202,630.42
Construction Fund	
Administrative Expense Account of the Special	104,323.84
Tax Fund	
Special Reserve Fund	3,093,554.06
Escrow Funds	43,165,689.19
Reserve Account ⁽²⁾	1,932,264.45
Cost of Issuance Account ⁽³⁾	1,171,048.56
Underwriter's Discount	 202,410.00
TOTAL USES	\$ 50,871,920.52

Funds transferred with respect to the Prior Bonds.

THE BONDS

Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of DTC. Interest, principal and premium, if any, on the Bonds is payable by the Paying Agent to DTC. DTC is responsible for disbursing such payments to the Beneficial Owners in accordance with the DTC bookentry only system. See APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" attached hereto.

Interest on the Bonds accrues from the date of delivery of the Bonds, and is payable semiannually on March 1 and September 1 of each year (each an "Interest Payment Date"), commencing September 1, 2006, at the annual interest rates shown on the inside cover of this Official Statement. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the Bonds on the basis of a 360-day year comprised of twelve 30-day months. See the Maturity Schedule on the inside cover and "THE BONDS—Debt Service Schedule for the Bonds" herein.

⁽²⁾ An amount equal to 50% of the initial Reserve Requirement. The District will purchase the Reserve Policy in satisfaction of the other 50% of the Reserve Requirement.

⁽³⁾ Includes legal fees, Fiscal Agent fees, costs of printing and premiums on the Financial Guaranty Insurance Policy and the Reserve Policy.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Fiscal Agent on the close of business on the Record Date. Interest will be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to the Bondowner at its address on the registration books. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States. Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Fiscal Agent in Los Angeles, California.

Redemption

Optional Redemption. The Bonds maturing on or before September 1, 2016, are not subject to optional redemption prior to their maturity dates. The Bonds maturing on or after September 1, 2017 may be redeemed before maturity at the option of the District, from any source of funds, on any Interest Payment Date on or after September 1, 2016 as a whole, or in part by lot from such maturities as are selected by the District. Bonds will be deemed to consist of \$5,000 portions, and any such portion may be separately redeemed. The Bonds redeemed prior to maturity, if any, will be redeemed at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

Mandatory Sinking Payment Redemption. The Bonds maturing on September 1, 2029 (the "2029 Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Indenture, on September 1, 2027 and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2029

Sinking Fund Redemption Date	
(September 1)	Sinking Payments
2027	\$2,650,000
2028	2,840,000
2029^{\dagger}	3,045,000

Final Maturity

The Bonds maturing on September 1, 2032 (the "2032 Term Bonds") will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established by the Indenture, on September 1, 2030 and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2032

Sinking Fund Redemption Date (September 1)	Sinking Payments
2030	\$3,255,000
2031	3,485,000
2032^{\dagger}	3,730,000

[†] Final Maturity

Mandatory Redemption From Special Tax Prepayments. The Bonds are also subject to mandatory redemption prior to their stated maturities, on any Interest Payment Date on or after September 1, 2016, from moneys derived by the District from Special Tax prepayments, selected among maturities as determined by the District in its sole discretion (and by lot within any one maturity), in integral multiples of \$5,000, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

Notice of Redemption. So long as the Bonds are held in book-entry form, notice of redemption will be mailed by the Fiscal Agent to DTC and not to the Beneficial Owners of the Bonds under the DTC book-entry only system. Neither the District nor the Fiscal Agent is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See APPENDIX E—"DTC AND THE BOOK-ENTRY SYSTEM" herein. The Fiscal Agent is obligated to mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the Underwriter as original purchaser of the Bonds and the respective registered Owners of the Bonds at the addresses appearing on the Bond registration books. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Fiscal Agent.

So long as notice by first class mail has been provided as set forth above, the actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the Bonds called for redemption is set aside for that purpose in the Redemption Account, the Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Bonds at the place specified in the notice of redemption, and no interest will accrue on the Bonds called for redemption from and after the redemption date, and the Owners of the redeemed Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Bonds or portions of Bonds only to the Redemption Account and shall have no rights, except with respect to the payment of the redemption price from the Redemption Account.

Registration, Transfer and Exchange

Registration. The Fiscal Agent will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Fiscal Agent.

Transfer or Exchange. Whenever any Bond is 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 of authorized denominations; provided that the Fiscal Agent will 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.

Debt Service Schedule for the Bonds

The following is the scheduled debt service for the Bonds assuming no optional redemptions:

Year Ending (September 1)	Principal	Interest	Total Annual Debt Service
2006	\$ 765,000	\$ 462,301.64	\$ 1,227,301.64
2007	395,000	1,974,563.76	2,369,563.76
2008	460,000	1,958,763.76	2,418,763.76
2009	525,000	1,940,363.76	2,465,363.76
2010	595,000	1,919,363.76	2,514,363.76
2011	670,000	1,895,563.76	2,565,563.76
2012	750,000	1,868,763.76	2,618,763.76
2013	835,000	1,838,763.76	2,673,763.76
2014	920,000	1,805,363.76	2,725,363.76
2015	1,005,000	1,768,563.76	2,773,563.76
2016	1,110,000	1,725,851.26	2,835,851.26
2017	1,215,000	1,675,901.26	2,890,901.26
2018	1,325,000	1,621,226.26	2,946,226.26
2019	1,440,000	1,564,913.76	3,004,913.76
2020	1,570,000	1,501,913.76	3,071,913.76
2021	1,695,000	1,433,226.26	3,128,226.26
2022	1,835,000	1,358,646.26	3,193,646.26
2023	1,975,000	1,277,906.26	3,252,906.26
2024	2,130,000	1,189,031.26	3,319,031.26
2025	2,295,000	1,093,181.26	3,388,181.26
2026	2,465,000	989,906.26	3,454,906.26
2027	2,650,000	878,981.26	3,528,981.26
2028	2,840,000	756,418.76	3,596,418.76
2029	3,045,000	625,068.76	3,670,068.76
2030	3,255,000	484,237.52	3,739,237.52
2031	3,485,000	333,693.76	3,818,693.76
2032	3,730,000	172,512.50	3,902,512.50
TOTAL	<u>\$ 44,980,000</u>	<u>\$ 36,114,991.90</u>	<u>\$ 81,094,991.90</u>

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Bond Indenture and from no other sources.

The Special Taxes are the primary security for the repayment of the Bonds. Under the Bond Indenture, the District has pledged to repay the Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of annual Administrative Expenses of up to the Administrative Expense Cap) and amounts on deposit in the Special Tax Fund (other than amounts held in the Administrative Expenses Account

therein). Special Tax revenues include the proceeds of the Special Taxes received by the District, including any scheduled payments thereof, the net proceeds of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, and penalties and interest thereon.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in the Special Tax Fund (other than the Administrative Expenses Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the Owners of the Bonds.

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

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the Board established the District on June 19, 1990 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on June 19, 1990, the owner of the property within the District authorized the District to incur indebtedness on behalf of the District in an amount not to exceed \$10,000,000 to finance certain school and related improvements, and approved a rate and method of apportionment of Special Taxes for the District which authorizes the Special Tax to be levied to repay District indebtedness incurred on behalf of the District, including the Bonds. On April 26, 1999, the Board of Trustees adopted a resolution commencing proceedings pursuant to the Act to increase the amount of the authorized bonded indebtedness and to amend the rate and method of apportionment of special tax for the District. On June 14, 1999, at a special election held pursuant to the Act, the owners of the property within the boundaries of the District, who were the qualified voters, authorized the District to incur a bonded indebtedness in an amount not to exceed \$50,000,000 and approved an amended and restated rate and method of apportionment of the Special Taxes to be levied to pay the principal of, and interest on, such bonded indebtedness.

The District has covenanted in the Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds and any Parity Bonds to which the Special Taxes are pledged, to replenish the Reserve Account and to pay the estimated Administrative Expenses. The District has also covenanted not to permit prepayments of Special Taxes unless after such prepayment Special Taxes will equal at least 115% of the sum on the estimated Administrative Expenses and gross debt service on all outstanding Bonds in each Fiscal Year.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" 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.

Rate and Method of Apportionment of Special Taxes. All capitalized terms used in this section shall have the meaning set forth in Appendix A.

Under the Rate and Method, all Taxable Property in the District shall be classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property, Taxable Public Property or Undeveloped Property and will be subject to a Special Tax levy at the maximum rates described in Section C of the Rate and Method.

A parcel will be classified as Developed Property if it is Taxable Property (other than Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property or Taxable Public Property) for which a building permit for new construction was issued prior to March 1 of the previous Fiscal Year. Developed Property will be further assigned to land use classes for Residential Property (Land Use Class 1), and Non-Residential Property (Land Use Class 3). The Maximum Annual Special Tax for Developed Property and Taxable Senior Housing Property will be the greater of the Assigned Special Tax or the Backup Special Tax. The Fiscal Year 2005-2006 Assigned Special Tax rates for each Assessor's Parcel of Developed Property is shown in the table below:

ASSIGNED SPECIAL TAXES FOR DEVELOPED PROPERTY FOR FISCAL YEAR 2005-2006 COMMUNITY FACILITIES DISTRICT NO. 90-2

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3710 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3710 per square foot of Residential Floor Area
3	Non-Residential Property	\$0.0674 per square foot of Non-Residential Floor Area

The Assigned Special Tax in the table above was applicable for Fiscal Year 2005-2006. On July 1 of each Fiscal Year the Assigned Special Tax shall be increased by an amount equal to two percent (2%) of the Assigned Special Tax in effect for the previous Fiscal Year.

For Fiscal Year 2005-06, the Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property was \$0.1880 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax shall no apply to the first 100 Acres of Non-Residential Property. On July 1 of each Fiscal Year the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the Backup Special Tax in effect for the previous Fiscal Year.

The Maximum Special Tax for Undeveloped Property, Undeveloped Non-Residential Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property was \$6,956.30 per acre for Fiscal Year 2005-06, and will increase thereafter on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year. The Fiscal Year 2005-06 Expected Special Tax for Undeveloped Non-Residential Property is \$1,264.68 per acre.

The Rate and Method expressly exempts up to 1,230.74 acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 acres of Golf Course Property In addition, no Special Tax will be levied on up to 66.02 acres of Senior Housing Property. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

The School District will determine the Special Tax Requirement for the Fiscal Year pursuant to the Indenture. "Special Tax Requirement" is defined in the Rate and Method as the amount required in any Fiscal Year to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including, but not

limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of District facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the School District pursuant to the Indenture. The Special Tax will be levied proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement. If additional monies are needed to satisfy the Special Tax Requirement after levying on all Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax, the Special Tax will be levied proportionately on each Assessor's Parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to 100% of the Expected Tax for Undeveloped Non-Residential Property, respectively. If additional moneys are further needed to satisfy the Special Tax Requirement, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property. If additional monies are needed to satisfy the Special Tax Requirement, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel. If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES."

Collection and Application of Special Taxes. The Special Taxes are 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. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The District has made certain covenants in the Indenture for the purpose of ensuring that the current Maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will not reduce the Maximum Special Tax rates and will oppose the reduction of Maximum Special Tax rates by initiative. See "SPECIAL RISK FACTORS—Proceedings to Reduce or Terminate the Special Tax" herein. Second, the District has covenanted not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds remaining Outstanding following such tender. See "SPECIAL RISK FACTORS—Non-Cash Payments of Special Taxes" herein.

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the District or the landowners therein. See "SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs" herein. There is no assurance that property 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. See "SPECIAL RISK FACTORS" herein.

Under the terms of the Indenture, all Special Taxes received by the District are to be deposited in the Special Tax Fund. Special Taxes deposited in the Special Tax Fund each fiscal year are to be applied by the Fiscal Agent under the Indenture in the following order of priority: (i) to deposit up to the Administrative Expenses Cap to pay Administrative Expenses; (ii) to pay the principal of and interest on the Bonds when due; (iii) to replenish the Reserve Account to the Reserve Requirement; (iv) to make any required transfers to the Rebate Fund; (v) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in (i) above; and (vi) for any other lawful purpose of the District. See APPENDIX B—"SUMMARY OF THE INDENTURE" herein.

Covenant to Foreclose; Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Taxes when due are included within the Special Tax revenues pledged to the payment of principal of and interest on the Bonds under the Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the Board, as the legislative body of the District, 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, the District has covenanted to commence judicial foreclosure proceedings against all parcels of property owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each fiscal year in which such Special Taxes were due, and that it will commence such 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 Taxes levied for the fiscal year, and will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in an amount in excess of \$10,000 so long as (a) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (b) with respect to the Bonds, or any Parity Bonds, the District is not in default in the payment of the principal of and interest on the Bonds or any such Parity Bonds. The District will not be obligated to advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement, or to avoid a default in the payment of the Bonds. See APPENDIX B— "SUMMARY OF THE INDENTURE—COVENANTS AND WARRANTY—Commence Foreclosure Proceedings" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) 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 the School District and the District. "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" and "-FDIC/Federal Government Interests in Properties" 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-Land Values" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the 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. Moreover, if the District chooses to purchase the property sold at foreclosure using a "credit bid" (where the District submits a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax), as permitted under Section 53356.5 of the Act, the District must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale. 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 Account of the Special Tax Fund

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement, which is defined as the amount, as of any date of calculation, equal the lowest of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds, if any, less original issue discount, if any, plus original issue premium, if any, or; (ii) the Maximum Annual Debt Service on the Bonds and any Parity Bonds, if any, or (iii) one hundred twenty-five percent (125%) of average annual debt service on the Bonds and any Parity Bonds (the "Reserve Requirement"). Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in Appendix A, the District 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 Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; and (ii) pay the principal and interest due in the final year of maturity of the Bonds. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX" and "SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund" herein.

In place of funds held by the Fiscal Agent in the Reserve Account to satisfy the Reserve Requirement, the District may substitute a municipal bond debt service reserve fund policy, a surety bond or a letter of credit satisfying the criteria set forth in the Indenture to satisfy the Reserve Requirement. The District will initially satisfy a portion of the Reserve Requirement with the Reserve Policy to be issued by the Insurer concurrently with the Insurer's delivery of the Financial Guaranty Insurance Policy, as described below under "FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY—The Reserve Policy." The District expects to initially fund the Reserve Account to the Reserve Requirement with a \$1,932,264.45 Reserve Policy and \$1,932,264.45 in cash.

Issuance of Parity Bonds

Pursuant to the Indenture, the District has covenanted not to issue additional bonds payable from the Special Tax Revenues or amounts in the funds and accounts established under the Indenture except for the purpose of refunding the Bonds. See APPENDIX B—"SUMMARY OF THE INDENTURE" herein.

FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the District. No representation is made herein by the District as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix F for a specimen of the Insurer's Specimen Financial Guaranty Insurance Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

The Insurer has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined in the Financial Guaranty Insurance Policy). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or

within one business day following the date on which the Insurer shall have received notice of Nonpayment from the Fiscal Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, the Insurer will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Fiscal Agent has notice that any payment of principal of or interest on an Bond which has become Due for Payment and which is made to a Holder by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Financial Guaranty Insurance Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

- 1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
- 2. payment of any redemption, prepayment or acceleration premium.
- 3. nonpayment of principal or interest caused by the insolvency or negligence of any Fiscal Agent, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of the Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments of the purchase price of Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Bonds upon tender by a registered owner thereof.

In the event that the Insurer were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

The Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,417,000,000 (unaudited) and statutory capital of \$5,879,000,000 (unaudited) as of March 31, 2006. Statutory capital consists of the Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the District of the Bonds.

The Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY AND RESERVE POLICY."

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Insurer. The address of the Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1. The Company's Annual Report on <u>Form 10-K</u> for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
- 2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006; and
- 3. The Company's Quarterly Report on <u>Form 10-Q</u> for the fiscal quarterly period ended March 31, 2006 and filed May 10, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "— Available Information."

Reserve Policy

Application has been made to the Insurer for the issuance of a Reserve Policy for the purpose of funding 50% of the Reserve Requirement in the Reserve Account of the Special Tax Fund. The Bonds will only be delivered upon the issuance of such Reserve Policy. See "SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund." The premium on the Reserve Policy is to be fully paid at or prior to the execution and delivery of the Bonds. The Reserve Policy provides that upon the later of (i) one (1) day after receipt by the Insurer of a demand for payment executed by the Fiscal Agent certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to the Insurer, the Insurer will promptly deposit funds with the Fiscal Agent sufficient to enable the Fiscal Agent to make such payments due on the Bonds, but in no event exceeding the Reserve Policy Coverage, as defined in the Reserve Policy.

Pursuant to the terms of the Reserve Policy, the Reserve Policy Coverage is automatically reduced to the extent of each payment made by the Insurer under the terms of the Reserve Policy the Insurer shall be reimbursed from Special Taxes when available for any draws under the Reserve Policy with interest at a market rate. Upon such reimbursement, the Reserve Policy is reinstated to the extent of each principal reimbursement up to but not exceeding the Reserve Policy Coverage.

While the amount on deposit, or credited to the Reserve Account, exceeds the amount of the Reserve Policy, any draw on the Reserve Policy shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Reserve Policy, includes amounts available under a letter of credit, insurance policy, Reserve Policy or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Reserve Account shall be replenished in the following priority: (i) principal and interest on the Reserve Policy and on the Additional Funding Instrument shall be paid from first available Net Taxes on a pro rata basis; and (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Reserve Policy and the Additional Funding Instrument shall be deposited from next available Net Taxes.

The Reserve Policy does not insure against nonpayment caused by the insolvency or negligence of the Fiscal Agent.

In the event that the Insurer were to become insolvent, any claims arising under the Reserve Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

THE COMMUNITY FACILITIES DISTRICT

Location

The District was formed in 1990. The District comprises approximately 2,149 gross acres within the southwesterly portion of the County, and all but approximately 97 acres are within the City of San Clemente. The remaining property will be annexed into the City of San Clemente as building permits are issued. The land within the District is part of the approximately 3,510 acre Talega Valley Planned Development (the "Talega Project"). At buildout, the District is planned to contain approximately 3,866 residential units, approximately 9.78 acres containing approximately 162,000 square feet of commercial retail uses and approximately 68.6 acres containing approximately 1,007,000 square feet of business park uses. The District

also includes an 18-hole public golf course on approximately 228 acres, approximately 2,012 acres of natural open space and public support uses including parks and an elementary school.

Pursuant to the Rate and Method, 1,230.74 acres of public property (including streets and public parks), religious property and property that is or will be owned by the property owners' homeowners association (including private streets and open space) are exempt from Special Taxes. The District estimates that there are currently approximately 1,192 acres exempt.

Special Tax Revenue Capacity

Table 1 below provides the following information: (i) summarizes the Developed Property in the District by residential or commercial land use classification, based on building permits issued as of March 1, 2006, (ii) provides the Fiscal Year 2006-07 Assigned Special Tax rate for Developed Property, based on building permits issued as of March 1, 2006, and Maximum Special Taxes for Developed Property, and (iii) provides the total Fiscal Year 2006-07 Special Tax capacity, i.e., revenues which would be generated by such rates if the District levied on all Taxable Property at Maximum Special Tax rates. The Special Tax Consultant has determined that, even if no further development were to occur in the District, the amount of Assigned Special Taxes which are authorized to be levied on currently Developed Property in each fiscal year during the term of the Bonds would generate an amount sufficient to pay Administrative Expenses, plus approximately 115% of estimated debt service on the Bonds in such fiscal year. Thus, unless delinquencies on Developed Property are greater than approximately 15% in any year, or more if further development occurs in the District, it is unlikely that the Special Tax will be levied on Undeveloped Property. See "SPECIAL RISK FACTORS—Insufficiency of Special Taxes" and other sections under "SPECIAL RISK FACTORS" for a discussion of certain potential causes of inadequate collections.

TABLE 1 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

FISCAL YEAR 2006-07 ESTIMATED MAXIMUM SPECIAL TAXES FROM DEVELOPED PROPERTY DEVELOPED PROPERTY BASED ON BUILDING PERMIT ISSUANCE

Tax Class	Number of Units ⁽¹⁾	Building Square Footage	Fiscal Year 2006-07 Assigned Special Tax Rate	Maximum Special Taxes
Residential	3,133	7,450,402	\$0.3784	\$ 2,819,232
Commercial	<u>N/A</u>	<u>787,310</u>	<u>0.0687</u>	54,088
Total	3,133	8,237,712		\$ 2,873,320

⁽¹⁾ Includes property for which a building permit was issued as of March 1, 2006. Source: David Taussig & Associates, Inc.

Status of Development

At buildout, the District is planned to contain approximately 3,866 residential units, approximately 9.78 acres containing approximately 162,000 square feet of commercial retail uses and approximately 68.6 acres containing approximately 1,007,000 square feet of business park uses. The District also includes an 18-hole public golf course on approximately 228 acres, approximately 2,012 acres of natural open space and public support uses including parks and an elementary school.

As of March 1, 2006, the District contained approximately 3,133 residential parcels for which building permits have been issued, of which approximately 2,834 completed residential units have been issued C of Os,

and approximately 52.70 acres of non-residential property containing approximately 787,310 square feet commercial and industrial space. The District also includes approximately 283 senior housing units. Of the 3,084 residential parcels for which building permits have been issued, 1,349 units are located within the District and Improvement Area No. 2002-1, and 1,735 units are located within the District but not within Improvement Area No. 2002-1. Most of the additional residential units remaining to be constructed within the District are also within the boundaries of Improvement Area No. 2002-1 of the District, and are therefore subject to higher taxes. See "—Direct and Overlapping Debt" below. As of March 1, 2006, all infrastructure was completed in the District.

Property Value

Summary. The most recent assessed value reported by the County Assessor for the taxable property in the District was as of January 1, 2005, which assessed value totaled \$1,584,649,814. In order to ascertain a more current value for the property in the District, Empire Economics compared recent sales prices for 466 housing sales within the District between January 1, 2005 and February 28, 2006, including 269 new home sales from a builder to individual homeowners and 197 existing home sales, and inferred incremental increases in values for those 466 homes in the District between January 1, 2005 and February 28, 2006. Empire Economics has prepared the Incremental Value Report (described below) which describes this statistical analysis and conclusions. See APPENDIX G—"INCREMENTAL VALUE REPORT." The Empire Economics estimates that the Incremental Value of the 466 new and resale homes within the District sold between January 1, 2005 and February 28, 2006 is \$252,121,455.

Incremental Value Report. In the Incremental Value Report, attached hereto as Appendix G, Empire Economics undertook to determine a more current value for the homes sold within the District between January 1, 2005 and February 28, 2006. The Incremental Value Report does not analyze any apartment or commercial properties, undeveloped property or any homes not sold within the District between January 1, 2005 and February 28, 2006. Pursuant to the Incremental Value Report, Incremental Value is the amount by which sale prices of homes within the District sold between January 1, 2005 and February 28, 2006 are greater than the assessed value as reported by the County Assessor as of January 1, 2005. The Incremental Value Report is based upon analysis of two categories of home sales within the District, new homes sold from builders to individual homeowners and re-sales of existing homes. See APPENDIX G—"INCREMENTAL VALUE REPORT" for a more complete discussion of the methodology utilized to determine Incremental Value.

The Incremental Value Report is not, and is not intended to be, an appraisal or market valuation of the property in the District. The Incremental Value Report was not prepared in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. No owner or employee of Empire Economics has an "MAI" designation and no such owner or employee is a member of the Appraisal Institute.

Certain values utilized in Tables 8 and 10 herein are based, where so identified, upon the Total Adjusted Value of the District, which includes the 1/1/05 Assessed Value for the District plus the Incremental Value, all as described above. See "THE COMMUNITY FACILITIES DISTRICT—Estimated Value-to-Lien Ratios."

Top Special Taxpayers

Table 2 below lists the largest taxpayers in the District, based on the projected Fiscal Year 2006-07 Special Tax levy and ownership information based on data provided by the County of Orange Assessor as of January 1, 2005 and updated through February 28, 2006 with home sales to individuals per the Market Absorption Consultant. Given that this list of owners is quite dated, there may have been substantial changes to the top ownership in the District. Table 2 does not include Undeveloped Property owners, as the District does not expect to levy Special Taxes on Undeveloped Property in Fiscal Year 2006-07.

TABLE 2 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

PROJECTED FISCAL YEAR 2006-07 TOP SPECIAL TAXPAYERS

$Owner^{(I)}$	Parcels Taxed	Projected Fiscal Year 2006-07 Special Tax Levy ⁽²⁾	Percentage of Total Levy
Standard Pacific Corp.	105	\$ 192,651	6.70%
BRE Properties Inc.	2	134,617	4.69
Shea Homes Limited	39	57,942	2.02
Jamboree – Tal Housing LP	1	48,845	1.70
Pulte Homes	1	29,749	1.04
William Lyon Homes	16	26,009	0.91
Jamboree-Tal Housing II	1	24,423	0.85
Talega Associates	17	27,365	0.95
John Laing Homes	2	11,371	0.40
Brookfield Talega 42 LLC	4	7,211	0.25
Makena-Talega II Inc.	1	6,219	0.22
Dynamic Builders Inc.	2	4,641	0.16
HG – Burke Talega	2	4,477	0.16
Others	<u>2,330</u>	<u>2,297,801</u>	<u>79.97</u>
TOTAL	<u>2,523</u>	<u>\$ 2,873,320</u>	<u>100.00</u> %

Owner information based on data provided by the County of Orange Assessor as of January 1, 2005 and updated through February 28, 2006 with home sales to individuals, per the Market Absorption Consultant. In addition, ownership has been updated with land and home sale information provided by Talega Associates. Does not include Undeveloped Property owners, as the District does not expect to levy Special Taxes on Undeveloped Property in Fiscal Year 2006-07.

Source: David Taussig & Associates, Inc.

No assurances can be given that these or any other Special Tax payers will pay the Special Taxes levied or other Special Taxes levied in the future.

Estimated Debt Service Coverage

Table 3 below sets forth the estimated debt service coverage from Special Taxes, based on building permits issued in the District as of March 1, 2006 and the projected annual debt service of the Bonds. It is possible that the Maximum Special Taxes could be reduced, but the District has covenanted to oppose any reduction in Maximum Special Taxes. See "SPECIAL RISK FACTORS—Proceedings to Reduce or Terminate Special Tax."

Coverage amounts provided in Table 3 below are given both with respect to Developed Property, defined in the Rate and Method as property for which a building permit has been issued, and with respect to property for which a C of O has been issued. The Rate and Method does not provide a separate classification for parcels for which a C of O has been issued, and therefore properties in this group do not generate different Special Tax revenues than Developed Properties. However, the C of O coverage information is included in Table 3 to demonstrate the diversification of ownership that can be expected in the near term, as well as the amount of coverage which can be expected to be generated from properties owned by such diverse owners.

Reflects taxes levied on developed property at 100% of the Assigned Special Tax. It is expected that no tax will be levied on Undeveloped Property. Based on building permits as of March 1, 2006.

TABLE 3 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED DEBT SERVICE COVERAGE

Bond Year Ending Sept. 1	Developed Property (with permits) Net Special Taxes ⁽¹⁾	Developed Property (with C of O) Net Special Taxes ⁽²⁾	Debt Service ⁽³⁾	Coverage Developed Property (with permits)	Coverage Developed Property (with C of O)
2006	\$2,304,702	\$2,282,381	\$2,395,089	0.96	0.95
2007	2,796,820	2,442,144	2,369,564	1.18	1.03
2008	2,852,757	2,490,987	2,418,764	1.18	1.03
2009	2,909,812	2,540,807	2,465,364	1.18	1.03
2010	2,968,008	2,591,623	2,514,364	1.18	1.03
2011	3,027,368	2,643,455	2,565,564	1.18	1.03
2012	3,087,916	2,696,324	2,618,764	1.18	1.03
2013	3,149,674	2,750,251	2,673,764	1.18	1.03
2014	3,212,668	2,805,256	2,725,364	1.18	1.03
2015	3,276,921	2,861,361	2,773,564	1.18	1.03
2016	3,342,459	2,918,588	2,835,851	1.18	1.03
2017	3,409,309	2,976,960	2,890,901	1.18	1.03
2018	3,477,495	3,036,499	2,946,226	1.18	1.03
2019	3,547,045	3,097,229	3,004,914	1.18	1.03
2020	3,617,985	3,159,174	3,071,914	1.18	1.03
2021	3,690,345	3,222,357	3,128,226	1.18	1.03
2022	3,764,152	3,286,804	3,193,646	1.18	1.03
2023	3,839,435	3,352,540	3,252,906	1.18	1.03
2024	3,916,224	3,419,591	3,319,031	1.18	1.03
2025	3,994,548	3,487,983	3,388,181	1.18	1.03
2026	4,074,439	3,557,743	3,454,906	1.18	1.03
2027	4,155,928	3,628,897	3,528,981	1.18	1.03
2028	4,239,047	3,701,475	3,596,419	1.18	1.03
2029	4,323,828	3,775,505	3,670,069	1.18	1.03
2030	4,410,304	3,851,015	3,739,238	1.18	1.03
2031	4,498,510	3,928,035	3,818,694	1.18	1.03
2032	4,588,480	4,006,596	3,902,513	1.18	1.03

⁽¹⁾ Fiscal Year 2005-06 actual Special Taxes based on the development status as of March 1, 2005. Actual Special Tax Levy was \$2,495,847, which included \$116,145 in Special Taxes from Undeveloped Property. Fiscal Year 2006-07 Maximum Special Taxes from Developed Property based on permits issued as of March 1, 2006, less Administrative Expenses (\$76,500 for Fiscal Year 2006-07, escalating 2% per annum thereafter). Assumes no additional development.

Fiscal Year 2005-06 actual Special Taxes based on C of Os as of January 31, 2006. Fiscal Year 2006-07 Maximum Special Taxes from Developed Property with C of Os based on C of Os issued as of March 1, 2006, less Administrative Expenses (\$76,500 for Fiscal Year 2006-07, escalating 2% per annum thereafter). Assumes no additional development.

⁽³⁾ Period ending September 1, 2006 includes debt service on the Prior Bonds paid on March 1, 2006. Source: David Taussig & Associates, Inc.

Delinquency History

Table 4 below summarizes the Special Tax delinquencies in the District from Fiscal Year 2000-2001 through Fiscal Year 2005-2006.

TABLE 4
CAPISTRANO UNIFIED SCHOOL DISTRICT
COMMUNITY FACILITIES DISTRICT NO. 90-2
(TALEGA)

HISTORICAL SPECIAL TAX DELINQUENCIES

		Number of First Installment	Number of Delinquent Parcels at	Delinquent Tax at		Remaining Delinquent	
Fiscal Year	Special Tax Levy	Delinquent Parcels	Fiscal Year End	Fiscal Year End	Percent of Levy	<i>Tax</i> 05/23/2006	Percent of Levy
2000-01	\$ 391,939	33	18	\$11,262	2.87%	0 \$	0.00%
2001-02	780,735	09	09	35,423	4.54	0	0.00
2002-03	1,455,922	62	25	17,636	1.21	0	0.00
2003-04	2,330,945	57	21	15,819	99.0	0	0.00
2004-05	2,458,452	96	42	23,412	0.95	5,185	0.21
2005-06	2,495,847	65	119(1)	71,043(1)	2.85	N/A	N/A

Provided by the Orange County Tax-Collector as of May 23, 2006. Source: Orange County Tax Collector, as compiled by David Taussig & Associates, Inc.

No assurance can be given as to the rate of delinquencies in the future and purchasers of the Bonds should assume that those owners which have been delinquent in the payment of taxes historically will also be unwilling or unable to pay their Special Taxes in the future.

Table 5 shows the assessed valuation in the District for the 2000-01 through 2005-06 fiscal years.

TABLE 5 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

HISTORICAL ASSESSED VALUES

Fiscal Year	Assessed Value ⁽¹⁾	Percentage Increase		
2000-01	\$ 134,590,571	N/A		
2001-02	365,710,090	171.72%		
2002-03	526,681,771	44.02		
2003-04	793,070,480	50.58		
2004-05	1,108,399,668	39.76		
2005-06	1,584,649,814	42.97		

Assessed values provided by the County of Orange as of January 1 of each calendar year. Source: Orange County Assessor's Office, as compiled by David Taussig & Associates, Inc.

The Teeter Plan

The County has elected to include special taxes levied within community facilities districts within the Teeter Plan method of apportionment and distribution of taxes collected by the County for local government agencies. Pursuant to the Teeter Plan the County apportions to the local agencies 100% of the amount of the taxes which are levied regardless of the amount collected from property owners. The County retains all penalties and interest which are collected with delinquent taxes. Thus, so long as the Special Taxes levied on taxable property within the District are subject to the Teeter Plan, the School District will receive 100% of the Special Taxes which are levied in each fiscal year.

The Special Taxes are allocated and distributed to the School District in installments as they are collected, beginning in November and ending in January with respect to the first installment of the Special Taxes which is due on December 10 of each year, and beginning in March and ending in May with respect to the second installment of the Special Taxes which is due on April 10 of each year.

The District receives reports from the Tax Collector regarding delinquent Special Taxes in February and June of each year. In late June of each year, the District receives a partial advance of estimated delinquent Special Taxes for the fiscal year. In the third week of July of each year, the District receives a final distribution of all delinquent Special Taxes levied for the preceding fiscal year.

The District must comply with the following requirements, among others, in order to have the Special Taxes apportioned and distributed pursuant to the Teeter Plan: (a) it may not separately collect Special Taxes before August 1 following the end of each tax year and (b) if it collects Special Taxes separately after July 31 in any tax year, it must collect penalties and interest at the correct rates (*i.e.*, 10% plus 1.5% of the principal amount per month after June 30) and forward such amounts together with the delinquent Special Taxes to the Tax Collector.

The above-mentioned prohibition on the District separately collecting Special Taxes before August 1 following the end of each tax year could preclude the District from commencing Superior Court foreclosure

proceedings to collect delinquent Special Taxes before that date. The District has covenanted, however, that under certain circumstances it will commence such foreclosure proceedings by October 1 following the close of the fiscal year in which the delinquent Special Taxes were due. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales" herein.

No assurance can be given that the County will continue to include special taxes levied within community facilities districts in the Teeter Plan, and the County could decide to discontinue the inclusion of such special taxes in the Teeter Plan at any time, or to discontinue the Teeter Plan in its entirety. The County has never discontinued the Teeter Plan with respect to any participating agency. See "SPECIAL RISK FACTORS—Teeter Plan Termination."

Direct and Overlapping Debt

Within the District's boundaries are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on the parcels within the District and others have authorized but unissued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District. The District includes approximately 1,071 acres and 1,349 residential units which are also within Improvement Area No. 2002-1 of the District. The District has issued bonds outstanding in the aggregate principal amount of \$49,675,000 (the "Improvement Area Bonds") which are secured by special taxes levied within the Improvement Area. The Improvement Area Bonds are not being refunded by the Bonds. The approximate amount of the outstanding direct and overlapping debt secured by taxes and assessment on the parcels within the District as of March 2, 2006 is shown in Table 6 below (the "Debt Report"), prepared by David Taussig & Associates, Inc.

TABLE 6 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

DIRECT AND OVERLAPPING DEBT OF THE DISTRICT As of March 2, 2006

Overlapping District	Fiscal Year 2005-06 Tax Levy	Amount of Levy on Parcels in the District	Percent of Levy on Parcels in the District	Total Debt Outstanding ⁽¹⁾	District Share of Total Debt Outstanding
Santa Margarita Water District CFD					
No. 99-1	\$ 6,083,785	\$ 5,559,101	91.3757%	\$ 99,345,000 ⁽²⁾	\$ 90,777,183
Metropolitan Water District	104,530,707	82,402	0.0788	389,565,000	307,096
Capistrano Unified School District					
No. 90-2, Improvement Area					
No. 2002-1 ⁽³⁾	3,152,422	3,152,422	100.0000	49,675,000	49,675,000
		Est	timated Share of	of Overlapping Debt	<u>\$140,759,279</u>
				Plus: the Bonds	44,980,000
		Estimated Sha	re of Direct an	d Overlapping Debt	\$185,739,279

Debt outstanding as of March 2, 2006.

Source: David Taussig & Associates, Inc.

Expected Tax Burden

It is expected that the total tax burden on residential units in the District will be less than 2% of the initial sales price of the units. The total tax burden on taxable residential units within the District vary significantly depending on whether such units are detached or attached, and whether such unit is within the boundaries of Improvement Area No. 2002-1 of the District. Table 7A below sets forth an estimated property tax bill for an average single family detached unit within the District and also within the boundaries of Improvement Area No. 2002-1 of the District. Table 7B below sets forth an estimated property tax bill for an average single family attached unit within the District and also within the boundaries of Improvement Area No. 2002-1 of the District. Table 7C below sets forth an estimated property tax bill for an average single family detached unit within the District not within the boundaries of Improvement Area No. 2002-1 of the District. Table 7D below sets forth an estimated property tax bill for an average single family attached unit within the District not within the boundaries of Improvement Area No. 2002-1 of the District. The estimated tax rates and amounts presented herein are based on currently available information. The actual amounts charged and actual sales prices may vary and may increase or decrease in future years.

⁽²⁾ The remaining authorization for SMWD CFD No. 99-1 is \$8,785,000.

⁽³⁾ Based on the projected Fiscal Year 2006-07 Special Tax Levy.

TABLE 7A CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED TOTAL EFFECTIVE TAX RATES (Sample Unit, Detached, Within the Boundaries of Improvement Area No. 2002-1)

Assessed Valuation and Property Taxes	#050.060	Percent of Total Assessed Value	Projected Amount	Maximum Amount
SALES PRICE ⁽¹⁾ TOTAL ASSESSED VALUE ⁽²⁾	\$850,869 \$843,869			
Average Single Family Detached Unit Size: Average Lot Size for Single Family Detached Unit:	2,765 Square Feet 6,302 Square Feet			
AD VALOREM PROPERTY TAXES (3) Basic Levy Metropolitan Water District Total General Property Taxes and Overrides		1.00000% 0.00520% 1.00520%	\$ 8,438.69 \$ 43.88 \$ 8,482.57	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHA	ARGES			
Vector Control (4)			\$ 1.92	
Mosquito and Fire Ant Assessment ⁽⁵⁾ MWD Standby Charge ⁽⁶⁾	Assigned Special Tax		\$ 5.30 \$ 10.08	
SMWD ID #7 D/S AQD (7)	Assigned Special Tax		\$ 48.50	
SMWD CFD No. 99-1 ⁽⁸⁾	\$0.7228 per square foot		\$ 1,998.54	\$ 1,998.54
CUSD CFD No. 90-2 (9)	\$0.3710 per square foot		\$ 1,025.82	\$ 1,184.78
IA No. 2002-1 of CUSD CFD No. 90-2 (10)	\$0.6544 per square foot		\$ 1,809.42	<u>\$ 2,165.99</u>
Total Assessments and Parcel Charges			\$ 4,899.57	\$ 5,415.11
PROJECTED TOTAL PROPERTY TAXES			\$ 13,382.14	\$ 13,897.68
Projected Total Effective Tax Rate (as % of Sales Price)			1.57276%	1.63335%

⁽¹⁾ Based on average assessed value provided by the County of Orange as of January 1, 2005. Sales price used to determine the Total Effective Tax Rate.

⁽²⁾ Assessed value and ad valorem taxes incorporate owner-occupied Assessed Value exemption of \$7,000.

⁽³⁾ Based on actual rates for Fiscal Year 2005-2006 for TRA 10-054.

Based on Fiscal Year 2005-06 rate of \$1.92 per detached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$5.30 per detached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$10.08 per dwelling unit.

⁽⁷⁾ Based on Fiscal Year 2005-06 rate of \$48.50 per dwelling unit.

Based on the SMWD CFD No. 99-1 Fiscal Year 2005-06 Assigned Special Tax of \$0.7228 per building square foot for a single family detached unit. Maximum Special Tax based on greater of Fiscal Year 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.2586 per square foot multiplied by parcel square footage. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

Based on the District's Fiscal Year 2005-06 Assigned Special Tax of \$0.3710 per building square foot for a single family detached unit. Maximum Special Tax based on greater of Fiscal Year 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.1880 per square foot multiplied by parcel square footage. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

Based on the Improvement Area No. 2002-1 of the District's 2005-06 Assigned Special Tax of \$0.6544 per building square foot for a single family detached unit. Maximum special tax based on greater of District's 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.3437 per square foot multiplied by parcel square footage. District's 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

TABLE 7B CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED TOTAL EFFECTIVE TAX RATES (Sample Unit, Attached, Within the Boundaries of Improvement Area No. 2002-1)

Assessed Valuation and Property Taxes SALES PRICE (1) TOTAL ASSESSED VALUE (2)	\$472,799 \$465,799	Percent of Total Assessed Value	Projected Amount	Maximum Amount
Average Single Family Attached Unit Size: Average Lot Size for Single Family Attached Unit:	1,517 Square Feet 2,997 Square Feet			
AD VALOREM PROPERTY TAXES (3) Basic Levy Metropolitan Water District Total General Property Taxes and Overrides		1.00000% 0.00520% 1.00520%	\$ 4,657.99 \$ 24.22 \$ 4,682.21	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CH.	ARGES		\$ 0.66	
Mosquito and Fire Ant Assessment (5)			\$ 0.66 \$ 3.18	
MWD Standby Charge (6)	Assigned Special Tax		\$ 10.08	
SMWD ID #7 D/S AQD (7)	rissigned Special Tax		\$ 48.50	
SMWD CFD No. 99-1 (8)	\$0.7228 per square foot		\$ 1,096.49	\$ 1,096.49
CUSD CFD No. 90-2 (9)	\$0.3710 per square foot		\$ 562.81	\$ 563.44
IA No. 2002-1 of CUSD CFD No. 90-2 (10)	\$0.6544 per square foot		\$ 992.72	\$ 1,030.07
Total Assessments and Parcel Charges			\$ 2,714.44	\$ 2,752.41
PROJECTED TOTAL PROPERTY TAXES			\$ 7,396.65	\$ 7,434.62
Projected Total Effective Tax Rate (as % of Sales Price)			1.56444%	1.57247%

⁽¹⁾ Based on average assessed value provided by the County of Orange as of January 1, 2005. Sales price used to determine the Total Effective Tax Rate.

⁽²⁾ Assessed value and ad valorem taxes incorporate owner occupied Assessed Value exemption of \$7,000.

Based on actual rates for Fiscal Year 2005-2006 for TRA 10-054.

Based on Fiscal Year 2005-06 rate of \$0.66 per attached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$3.18 per attached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$10.08 per dwelling unit.

⁽⁷⁾ Based on Fiscal Year 2005-06 rate of \$48.50 per dwelling unit.

Based on the SMWD CFD No. 99-1 Fiscal Year 2005-06 Assigned Special Tax of \$0.7228 per building square foot for a single family attached unit. Maximum Special Tax based on greater of Fiscal Year 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.2586 per square foot multiplied by parcel square footage. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

⁽⁹⁾ Based on the District's Fiscal Year 2005-06 Assigned Special Tax of \$0.3710 per building square foot for a single family attached unit. Maximum Special Tax based on greater of Fiscal Year 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.1880 per square foot multiplied by parcel square footage. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

Based on the Improvement Area No. 2002-1 of the District's 2005 06 Assigned Special Tax of \$0.6544 per building square foot for a single family attached unit. Maximum special tax based on greater of District's 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.3437 per square foot multiplied by parcel square footage. District's 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

TABLE 7C CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED TOTAL EFFECTIVE TAX RATES

(Sample Unit, Detached, Not Within the Boundaries of Improvement Area No. 2002-1)

Assessed Valuation and Property Taxes SALES PRICE (1) TOTAL ASSESSED VALUE (2)	\$664,817 \$657,817	Percent of Total Assessed Value	Projected Amount	Maximum Amount
Average Single Family Detached Unit Size (3): Average Lot Size for Single Family Detached Unit (3):	2,954 Square Feet 6,980 Square Feet			
AD VALOREM PROPERTY TAXES (4) Basic Levy Metropolitan Water District Total General Property Taxes and Overrides		1.00000% 0.00520% 1.00520%	\$ 6,578.17 \$ 34.21 \$ 6,612.38	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHA	ARGES			
Vector Control (5)			\$ 1.92	
Mosquito and Fire Ant Assessment ⁽⁶⁾ MWD Standby Charge ⁽⁷⁾	Assigned Special Tax		\$ 5.30 \$ 10.08	
Street Improvement Program ⁽⁸⁾	Assigned Special Tax		\$ 22.50	
SMWD ID #7 D/S AQD (9)			\$ 48.50	
SMWD CFD No. 99-1 (10)	\$0.7228 per square foot		\$ 2,135.15	\$ 2,135.15
CUSD CFD No. 90-2 (11)	\$0.3710 per square foot		<u>\$ 1,095.93</u>	<u>\$ 1,312.24</u>
Total Assessments and Parcel Charges			\$ 3,319.39	\$ 3,535.69
PROJECTED TOTAL PROPERTY TAXES			\$ 9,931.76	\$ 10,148.07
Projected Total Effective Tax Rate (as % of Sales Price)			1.49391%	1.52645%

⁽¹⁾ Based on average assessed value for property not in Improvement Area No. 2002-1 of the District, provided by the County of Orange as of January 1, 2005. Sales price used to determine the Total Effective Tax Rate.

⁽²⁾ Assessed value and ad valorem taxes incorporate owner-occupied Assessed Value exemption of \$7,000.

⁽³⁾ Average for property not in Improvement Area No. 2002-1 of the District.

Based on actual rates for Fiscal Year 2005-2006 for TRA 10-026.

⁽⁵⁾ Based on Fiscal Year 2005-06 rate of \$1.92 per detached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$5.30 per detached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$10.08 per dwelling unit.

⁽⁸⁾ Based on Fiscal Year 2005-06 rate of \$22.50 per dwelling unit.

⁽⁹⁾ Based on Fiscal Year 2005-06 rate of \$48.50 per dwelling unit.

Based on the SMWD CFD No. 99-1 Fiscal Year 2005-06 Assigned Special Tax of \$0.7228 per building square foot for a single family detached unit. Maximum Special Tax based on greater of Fiscal Year 2005-06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.2586 per square foot multiplied by parcel square footage. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

Based on the District's Fiscal Year 2005-06 Assigned Special Tax of \$0.3710 per building square foot for a single family detached unit. Maximum special tax based on greater of Fiscal Year 2005-06 Assigned Special Tax or Backup Special Tax based on \$0.1880 per square foot multiplied by parcel square footage. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

TABLE 7D CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED TOTAL EFFECTIVE TAX RATES

(Sample Unit, Attached, Not Within the Boundaries of Improvement Area No. 2002-1)

Assessed Valuation and Property Taxes		Percent of Total Assessed Projected Value Amount		Maximum Amount
SALES PRICE (1)	\$389,597			
TOTAL ASSESSED VALUE (2)	\$382,597			
Average Single Family Attached Unit Size ⁽³⁾ : Average Lot Size for Single Family Attached Unit ⁽³⁾ :	1,863 Square Feet 4,403 Square Feet			
AD VALOREM PROPERTY TAXES (4)		1.00000%	\$ 3,825.97	
Basic Levy		0.00520%	\$ 19.90	
Metropolitan Water District		1.00520%	\$ 3,845.86	
Total General Property Taxes and Overrides				
ASSESSMENTS, SPECIAL TAXES AND PARCEL CH.	ARGES			
Vector Control (5)			\$ 0.66	
Mosquito and Fire Ant Assessment (6)			\$ 3.18	
MWD Standby Charge (7)	Assigned Special Tax		\$ 10.08	
Street Improvement Program ⁽⁸⁾	_ ,		\$ 22.50	
SMWD ID #7 D/S AQD ⁽⁹⁾			\$ 48.50	
SMWD CFD No. 99-1 (10)	\$0.7228 per square foot		\$ 1,346.58	\$ 1,346.58
CUSD CFD No. 90-2 (11)	\$0.3710 per square foot		<u>\$ 691.17</u>	<u>\$ 827.76</u>
Total Assessments and Parcel Charges			\$ 2,122.67	\$ 2,259.26
PROJECTED TOTAL PROPERTY TAXES			\$ 5,968.53	\$ 6,105.12
Projected Total Effective Tax Rate (as % of Sales Price)			1.53198%	1.56704%

⁽¹⁾ Based on average assessed value provided by the County of Orange as of January 1, 2005. Sales price used to determine the Total Effective Tax Rate.

⁽²⁾ Assessed value and ad valorem taxes incorporate owner occupied Assessed Value exemption of \$7,000.

⁽³⁾ Average for property not in Improvement Area No. 2002-1 of the District.

Based on actual rates for Fiscal Year 2005-2006 for TRA 10-033.

⁽⁵⁾ Based on Fiscal Year 2005-06 rate of \$0.66 per attached dwelling unit.

⁽⁶⁾ Based on Fiscal Year 2005-06 rate of \$3.18 per attached dwelling unit.

Based on Fiscal Year 2005-06 rate of \$10.08 per dwelling unit.

⁽⁸⁾ Based on Fiscal Year 2005-06 rate of \$22.50 per dwelling unit.

⁽⁹⁾ Based on Fiscal Year 2005-06 rate of \$48.50 per dwelling unit.

Based on the SMWD CFD No. 99-1 Fiscal Year 2005-06 Assigned Special Tax of \$0.7228 per building square foot for a single family detached unit. Maximum special tax based on greater of Fiscal Year 2005 06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.2586 per square foot footage multiplied by parcel square. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

Based on the District's Fiscal Year 2005-06 Assigned Special Tax of \$0.3710 per building square foot for a single family detached unit. Maximum special tax based on greater of Fiscal Year 2005 06 Assigned Special Tax or Backup Special Tax. Backup Special Tax based on \$0.1880 per square foot footage multiplied by parcel square. Fiscal Year 2005-06 Assigned Special Tax and Backup Special Tax escalate 2% per year.

Estimated Value-to-Lien Ratios

The value of individual parcels and the direct and overlapping land secured bonded indebtedness on individual parcels vary greatly among parcels within the District. The value of each individual parcel is significant because in the event of a delinquency in the payment of Special Taxes levied on a parcel, the District may foreclose only against such delinquent parcel. The assessed value of property in the District for Fiscal Year 2005-06, as of the January 1, 2005 lien date, was \$1,584,649,814. The estimated assessed value-to-lien ratio of the property within the District, with no Incremental Value added, and including the principal amount of the Bonds and the \$140,759,279 in estimated direct and overlapping tax and assessment debt described in Table 6 above, is approximately 8.53-to-1. Based upon the Adjusted Value, which includes the assessed value of the property within the District as of January 1, 2005 plus the Incremental Value of \$252,121,455 for the District, and including the principal amount of the Bonds and the \$140,759,279 in estimated direct and overlapping tax and assessment debt described in Table 6 above, the estimated Adjusted Value-to-lien ratio of the property within the District is approximately 9.89-to-1.

Table 8 below sets forth the estimated value-to-lien ratios for parcels within the District subject to Special Taxes, based on development status as of March 1, 2006, based upon the 1/1/05 assessed value of the District plus the Incremental Value and including the principal amount of the Bonds and the estimated direct and overlapping tax and assessment debt. Alternatively, Table 9 below sets forth the estimated value-to-lien ratios for parcels within the District subject to Special Taxes, based on development status as of March 1, 2006, based upon the 1/1/05 assessed value of the District and including the principal amount of the Bonds and the estimated direct and overlapping tax and assessment debt.

In the Annual Report filed pursuant to the District Disclosure Agreement (defined below), the District will estimate the value-to-lien ratio for property within the District subject to the Special Taxes based only on the assessed value of the taxable property within the District. See "CONTINUING DISCLOSURE" herein.

Table 10 below sets forth the estimated value-to-lien ratios for parcels of Developed Property, categorized by value-to-lien ratio, within the District subject to Special Taxes, based on development status as of March 1, 2006, based upon the 1/1/05 assessed value of the District plus the Incremental Value, and including the principal amount of the Bonds and the estimated direct and overlapping tax and assessment debt. Table 10 also sets forth the projected fiscal year 2006-07 Special Tax levy within the District by value-to-lien ratio category. Table 11 below sets forth the estimated value-to-lien ratios for parcels of Developed Property, categorized by value-to-lien ratio, within the District subject to Special Taxes, based on development status as of March 1, 2006, based upon the 1/1/05 assessed value of the District and including the principal amount of the Bonds and the estimated direct and overlapping tax and assessment debt. Table 11 also sets forth the projected fiscal year 2006-07 Special Tax levy within the District by value-to-lien ratio category.

TABLE 8 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED VALUE-TO-LIEN RATIOS (Assessed Value And Incremental Value)

Land Use ⁽¹⁾	I Use ⁽¹⁾ Assessed Value ⁽²⁾		Total Adjusted Value ⁽⁴⁾	Estimated Direct & Overlapping Debt ⁽⁵⁾	Value to Lien Ratio ⁽⁶⁾
Developed Property					
Residential Property (in the District only)	\$ 787,222,9	\$ 46,216,565	\$ 833,439,516	\$ 68,385,854	12.19
Residential Property (in the District and the Improvement Area thereof)	672,486,8	07 205,904,890	878,391,697	87,106,601	10.08
Non-Residential Property	108,231,1	<u>21</u> 0	108,231,121	6,439,012	<u>16.81</u>
Subtotal	\$ 1,567,940,8	79 \$252,121,455	\$1,820,062,334	\$161,931,468	11.24
Undeveloped Property ⁽⁷⁾					
Dynamic Builders, Inc. (8)	\$ 700,1	18 \$ 0	700,118	\$ 57,534	12.17
Hoprock San Clemente LLC	6,936,0	00 0	6,936,000	1,307,120	5.31
John Laing Homcs ⁽⁹⁾	111,2	32 0	111,232	389,326	0.29
Makena-Talega II, Inc. (8)	699,2	75 0	699,275	58,861	11.88
Standard Pacific Corp. (9)	1,185,9	29 0	1,185,929	1,609,160	0.74
Talega Associates LLC	7,076,3	810	7,076,381	20,385,810	0.35
Subtotal	\$ 16,708,9	350	16,708,935	<u>\$ 23,807,811</u>	0.70
Grand Total	\$ 1,584,649,8	14 \$252,121,455	\$1,836,771,269	\$185,739,279	9.89

Land use classification based on building permits issued as of March 1, 2006.

⁽²⁾ Assessed Value information provided by the Orange County Assessor as of January 1, 2005.

⁽³⁾ Incremental value based on the Incremental Value Report.

⁽⁴⁾ Total Adjusted Value equals the sum of the Assessed Value and the Incremental Value.

⁽⁵⁾ Includes the principal amount of the Bonds plus the estimated direct and overlapping tax and assessment debt.

⁽⁶⁾ Equals the Total Adjusted Value column divided by Estimated Direct and Overlapping Debt column.

⁽⁷⁾ The District does not expect to levy taxes on Undeveloped Property in Fiscal Year 2006-07.

⁽⁸⁾ Property is Undeveloped Non-Residential Property and will be taxed once the property is developed. The property is not included within the boundaries of Improvement Area No. 2002-1 of the District.

⁽⁹⁾ Ownership has been updated with land sale information provided by Talega Associates.

TABLE 9 CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS (Assessed Value Only)

Property Classification / Owner ⁽¹⁾⁽²⁾			Total Outstanding Debt ⁽⁵⁾ As		Ass	essed Value ⁽²⁾	Estimated Value-to- Lien ⁽⁶⁾		
Developed Property Residential Property (in the	\$	1,456,579	\$ 22,8	301,817	\$ 6	8,385,854	\$	787,222,951	11.51
District only) Residential Property (in the District and the Improvement		1,362,653	21,3	331,466	8	7,106,601		672,486,807	7.72
Area thereof) Non-Residential Property Subtotal	<u> </u>	54,088 2,873,320		346,717 480,000		6,439,012 1,931,468	<u> </u>	108,231,121 1,567,940,879	$\frac{16.81}{9.68}$
Undeveloped Property Dynamic Builders, Inc. (7)	\$	0	\$	0	\$	57,534	\$	700,118	12.17
Hoprock San Clemente LLC John Laing Homes ⁽⁸⁾ Makena-Talega II, Inc. ⁽⁷⁾	Ψ	0 0 0	Φ	0 0 0	Φ	1,307,120 389,326 58,861	J	6,936,000 111,232 699,275	5.31 0.29 11.88
Standard Pacific Corp. (8) Talega Associates LLC Subtotal Grand Total	\$ \$	$ \begin{array}{c} 0 \\ 0 \\ \hline 0 \\ 2,873,320 \end{array} $	\$ \$_44,4	0 0 0 180,000	\$ 2	1,609,160 0,385,810 3,807,811 5,739,279	\$ \$	1,185,929 7,076,381 16,708,935 1,584,649,814	0.74 0.35 0.70 8.53

Classification to developed and undeveloped categories based on building permits issued as of March 1, 2006.

⁽²⁾ Ownership and net assessed value information provided by the Orange County Assessor as of January 1, 2005.

⁽³⁾ Assumes taxes are levied on developed property at 100% of the Assigned Special Tax and no Special Tax levy on Undeveloped Property. Based on building permits issued as of March 1, 2006.

⁽⁴⁾ Allocated based on projected fiscal year 2006-07 Special Tax levy.

⁽⁵⁾ Includes the principal amount of the Bonds plus the estimated direct and overlapping tax and assessment debt. The overlapping Improvement Area No. 2002-1 of the District debt is allocated based on the projected fiscal year 2006-07 Special Tax levy. The overlapping Santa Margarita Water District CFD No. 99-1 and Metropolitan Water District debt is allocated based on the fiscal year 2005-06 levy.

⁽⁶⁾ Estimated Assessed Value column divided by Total Outstanding Debt column.

Property is undeveloped non-residential property and will be taxed once the property is developed. Property is not included in the boundaries of Improvement Area No. 2002-1 of the District.

⁽⁸⁾ Ownership has been updated with land sale information provided by Talega Associates.

COMMUNITY FACILITIES DISTRICT NO. 90-2 CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) TABLE 10

ESTIMATED TOTAL ADJUSTED VALUE VALUE-TO-LIEN RATIOS BY CATEGORY OF DEVELOPED PROPERTY

Estimated Total Value to Lien Ratio ⁽¹⁾	Number of Parcels ⁽²⁾	Number of Residential Units ⁽³⁾	Fiscal Year 2005- 06 Assessed Value ⁽⁴⁾	Fiscal Year 2005-06 Incremental Value ⁽⁵⁾	Fiscal Year 2005- 06 Total Adjusted Value ⁽⁶⁾	Projected Fiscal Year 2006-07 Levy	Percentage of Projected Fiscal Year 2006-07 Levy	Outstanding Bond Amount ⁽⁸⁾	Overlapping Outstanding Debt ⁽⁹⁾	Total Outstanding Debt
17:1 and above	445	414	\$ 315,523,166	•	S 448,321,900	\$ 417,501	14.53%	S 6,535,718	\$ 14,731,618	\$ 21,267,336
14:1 to 16.99:1	316	299	248,698,469		290,215,727	325,886	11.34	5,101,535	14,024,678	19,126,214
11:1 to 13.99:1	289	989	434,944,269		503,824,872	711,155	24.75	11,132,681	29,592,122	40,724,803
8:1 to 10.99:1	754	1,108	467,926,388	8,924,860	476,851,248	846,931	29.48	13,258,164	35,724,644	48,982,808
5:1 to 7.99:1	176	174	81,698,550		81,698,550	218,588	7.61	3,421,853	9,194,661	12,616,514
3:1 to 4.99:1	47	46	10,641,295	0	10,641,295	51,120	1.78	800,256	2,081,709	2,881,964
less than 3:1	86	406	8,508,742	0	8,508,742	302,139	10.52	4,729,793	11,602,036	16,331,829
Total	2,523	3,133	\$ 1,567,940,879	S 252,121,455	S 1,820,062,334	\$ 2,873,320	100.00%	S 44,980,000	\$ 116,951,468	\$ 161,931,468

Total value divided by the total direct and overlapping debt on the Parcel.

Number of developed parcels in fiscal year 2005-06, provided by the County of Orange Assessor as of January 1, 2005.

Number of residential units based on building permits issued as of March 1, 2006.

Assessed Values as of January 1, 2005 provided by the County of Orange Assessor.

Incremental Values provided based on the Incremental Value Report. 3 6 6 6 6 6

Assumes taxes are levied on developed property at 100% of the Assigned Special Tax with no tax levy on Undeveloped Property, as expected. Based on building permits as Total value is the sum of the assessed value and incremental value. of March 1, 2006.

8

The Bonds are allocated to individual parcels based on share of projected fiscal year 2006-07 Special Tax levy within the District.

Overlapping debt allocated to individual parcels based on the share of projected fiscal year 2006-07 special tax levy for Improvement Area No. 2002-1 of the District and the fiscal year 2005-06 levy for MWD and SMWD CFD No. 99-1. 6

COMMUNITY FACILITIES DISTRICT NO. 90-2 CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA) TABLE 11

ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS BY CATEGORY OF DEVELOPED PROPERTY (ASSESSED VALUE ONLY)

Total Outstanding Debt	S 9,986,029	14,347,068	33,654,974	56,407,269	20,474,220	6,789,933	20,271,974	\$161,931,468
Overlapping Outstanding Debt ⁽⁷⁾	S 7,051,756	10,264,073	23,756,003	41,194,740	15,010,765	5,049,404	14,624,727	S 116,951,468
Outstanding Bond Amount ⁽⁶⁾	\$ 2,934,273	4,082,995	9,898,971	15,212,529	5,463,455	1,740,528	5,647,247	\$ 44,980,000
Percentage of Projected Fiscal Year 2006-07 Levy	6.52%	80.6	22.01	33.82	12.15	3.87	12.56	100.00%
Projected Fiscal Year 2006-07 Levy ^(S)	\$ 187,441	260,822	632,346	971,776	349,005	111,185	360,746	\$ 2,873,320
Fiscal Year 2005-06 Assessed Value ⁽⁴⁾	\$ 214,255,354	218,554,127	414,184,280	546,383,234	130,820,824	26,102,298	17,640,762	\$ 1,567,940,879
Number of Residential Units ⁽³⁾	198	232	621	1,241	283	96	462	3,133
Number of Parcels ⁽²⁾	229	249	623	887	285	26	153	2,523
Estimated Assessed Value to Lien Ratio ⁽¹⁾	17:1 and above	14:1 to 16.99:1	11:1 to 13.99:1	8:1 to 10.99:1	5:1 to 7.99:1	3:1 to 4.99:1	less than 3:1	Total

Assessed Value divided by the total direct and overlapping debt on the Parcel.

Number of developed parcels in fiscal year 2005-06, provided by the County of Orange Assessor as of January 1, 2005.

Number of residential units based on building permits issued as of March 1, 2006. 8 6 6 €

Assessed Values as of January 1, 2005 provided by the County of Orange Assessor.

Assumes taxes are levied on developed property at 100% of the Assigned Special Tax. No tax levy on Undeveloped Property. Based on building permits as of March 1, (5)

The Bonds are allocated to individual parcels based on share of projected fiscal year 2006-07 Special Tax levy within the District. 9

Overlapping debt allocated to individual parcels based on the share of projected fiscal year 2006-07 special tax levy for Improvement Area No. 2002-1 of the District and the fiscal year 2005-06 levy for MWD and SMWD CFD No. 99-1. 6

THE CAPISTRANO UNIFIED SCHOOL DISTRICT

The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor taxing power of the School District have been pledged to the payment of the Bonds and the Bonds will not be payable from any of School District's revenues or assets.

General Information

The School District was established in 1964 and provides elementary and secondary education in the southern region of Orange County. With a current total enrollment of 49,542 students, the School District furnishes public education to approximately 9.6% of all students enrolled in public schools within Orange County. The School District's boundaries contain an area of approximately 200 square miles. The School District is located approximately 77 miles north of the City of San Diego and 60 miles south of the City of Los Angeles. The School District is traversed north/south by Interstate 5 and by the San Joaquin Hills Transportation Corridor Toll Road (State Highway 73).

The School District's educational program is conducted in 38 elementary schools, 10 middle schools and 5 high schools. The School District also maintains one continuation high school, one alternative school and four child care development facilities for School District students.

Management of the School District

The School District is governed by a seven-member Board of Trustees (the "Board"), which governs all activities related to public elementary and secondary education within the jurisdiction of the School District. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding source entities. Each Board member is elected by the public for a four-year term of office and elections for the Board are held every two years. The Board has the decision making authority, the power to designate management, the responsibility to significantly influence operations and is accountable for all fiscal matters relating to the School District. The current members of the Board and positions held are set forth in the table below.

CAPISTRANO UNIFIED SCHOOL DISTRICT BOARD OF TRUSTEES

Name	Term Expires
Marlene M. Draper, President	2008
Crystal Kochendorfer, Vice President	2006
Mike Darnold, Member	2008
Dr. Duane E. Stiff, Member	2008
Sheila J. Benecke, Member	2008
Shelia J. Henness, Member	2006
John J. Casabianca, Clerk	2006

Source: Capistrano Unified School District.

Average Daily Attendance and Base Revenue Limit

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. The School District's P2 Reports of average daily attendance, as computed by the prescribed State formula, are set forth below.

CAPISTRANO UNIFIED SCHOOL DISTRICT AVERAGE DAILY ATTENDANCE FISCAL YEARS 1995-96 THROUGH 2004-05

Fiscal Year	Total Average Daily Attendance
1997-98	39,706
1998-99	40,260
1999-00	41,614
2000-01	42,959
2001-02	44,766
2002-03	46,290
2003-04	47,476
2004-05	48,165
2005-06 ⁽¹⁾	48,515
$2006-07^{(1)}$	48,765

(1) Projected.

Source: The District.

SPECIAL RISK FACTORS

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds are not suitable investments for many investors. 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 and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District 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 the District. See "—Land Values" and "—Limited Secondary Market" below.

Risks of Real Estate Secured Investments Generally

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the School District. Except with respect to the Special Taxes, 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, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District or the School District or force the forfeiture of any School District or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the School District or a legal or equitable pledge, charge, lien or encumbrance upon any of the School District's property or upon any of the School District's

or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Indenture. Special Tax Revenues could be insufficient to pay debt service on the Bonds as a result of delinquencies in the payment of Special Taxes or the insufficiency of proceeds derived from the sale of land within the District following a delinquency in the payment of the applicable Special Tax. The District and School District have no obligation to pay debt service on the Bonds in the event of insufficient Special Tax Revenues except to the extent that money is available for such purpose in the Reserve Account. The District's only obligation with respect to delinquent Special Taxes is to pursue judicial foreclosure proceedings under the circumstances described in the Indenture. "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales" herein.

Insufficiency of Special Taxes

Under the Rate and Method set forth in Appendix A hereto, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on whether such parcel is categorized as Undeveloped Property or as Developed Property and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" and "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Rate and Method of Apportionment of Special Taxes."

Based on current development projections, the Maximum Special Taxes that may be levied within the District are at least 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the Maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

The Rate and Method expressly exempts up to 1,230.74 acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 acres of Golf Course Property In addition, no Special Tax will be levied on up to 66.02 acres of Senior Housing Property. See APPENDIX A—"AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" herein. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the 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 and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Failure to Develop Properties

Development of property within the District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of a property owner to pay the Special Taxes when due.

There can be no assurance that the remaining land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, an increase in mortgage interest rates, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners who are developing the land to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

The maximum annual Special Tax that may be levied on Developed Property in the District currently is greater than 100% of the maximum annual debt service on the Bonds.

Endangered Species

During the 1990s, there was an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered species. An increase in the number of endangered species would curtail development in a number of areas. At present, the property under development within the District is not known by the District to be inhabited by any plant or animal species which is on the endangered species list or which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list. Notwithstanding this fact, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal governments to protect species located on or adjacent to the developments within the District could negatively impact the remaining development in the District as planned.

Natural and Manmade Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of unseasonable rainfall. The occurrence of seismic activity, fires or flooding in or around the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes when due.

Hazardous Substances

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the taxable parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

Risks Related to Mortgage Interest Rates and Variable Rate Mortgages

In addition to the risks to land value described under the heading "—Land Values," land values in California, and residential land values in particular, may be affected by the use of adjustable rate loans and creative financing. Adjustable rate loans and creative financing have been a primary driving force underlying the housing price appreciation in California since 2002, in contrast historically to strong employment growth as the primary driving force of housing price appreciation. Creative financing includes the use of loan structures other than fixed-rate or 1-year adjustable rate loans, including without limitation interest only loans, payment option loans as well as initial teaser rates with very low initial payments that result in negative amortizations. As a result of increased use of adjustable rate loans and creative financing, many homeowners may face rising mortgage payments due to automatic rate resets as well as rising interest rates. Potential home purchasers may be unable to obtain adjustable rate loans and creative financing, which may reduce overall demand for new homes and, in turn, property values in the District.

Rising mortgage payments due to rising interest rates could affect the ability of individual homeowners to pay Special Taxes when due, thereby causing higher delinquency levels.

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

Parity Taxes, Special Assessments and Land Development Costs

Property within the District is subject to taxes and assessments imposed by public agencies also having jurisdiction over the land within the District. See "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Debt."

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 the School District and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See "—Bankruptcy and Foreclosure" below.

Neither the School District nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, ad valorem taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the School District, petition other public agencies to issue public indebtedness secured by special taxes, ad valorem taxes or assessments. Any such special taxes,

ad valorem taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Debt" and "—Estimated Value-To-Lien Ratios."

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel 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 lien 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 the District 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.

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 the District on the regular *ad valorem* property tax bills sent to owners of such properties by the County Tax Collector. 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 property tax installments.

See "COMMUNITY FACILITIES DISTRICT—Delinquency History," for a discussion of the current and historic delinquency rates for the payment of Special Taxes within the District. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales," for a discussion of the provisions which apply, and procedures which the 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 (the "FDIC") regarding the payment of special taxes and assessment and limitations on the District's ability to foreclosure on the lien of the Special Taxes in certain circumstances.

Non-Cash Payments of Special Taxes

Under the Act, the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds. In order

to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds and any Parity Bonds when due.

Payment of the Special Tax is not a Personal Obligation of the Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

Teeter Plan Termination

In 1993, the County implemented its Teeter Plan, as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect Owners of the Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or any part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the District would eliminate such protection from delinquent Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT—The Teeter Plan."

Land Values

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District'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, fires 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" herein.

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 Orange County Assessor, generally not to exceed an increase of more than 2% per Fiscal Year. No assurance can be given that a parcel could actually be sold for its assessed value.

Prospective purchasers of the Bonds should not assume that the assessed land within the District could be sold for its assessed value at a foreclosure sale for delinquent Special Taxes.

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—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales."

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agencies have an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District 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 property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District 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 Account and perhaps, ultimately, a default in payment on the Bonds.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; 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.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount and priority 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.

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.

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 on the Bonds or under the Indenture.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Bond Indenture with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

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. So long as the Insurer is not in default under the Financial Guaranty Insurance Policy or the Reserve Policy, upon the occurrence and continuation of a default under the Indenture, the Bond Insurer shall be entitled to control and direct all remedies.

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, moratorium and other similar laws affecting creditors' rights 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.

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 the District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. 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.

Proceedings to Reduce or Terminate the Special Tax

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 XIIIC and Article XIIID 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 continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIIIC 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 XIIIC 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 Board of Trustees of the School District acting as the legislative body of the District 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. 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. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted to not consent or conduct proceedings with respect to a reduction in the Maximum Special Taxes that may be levied in the District.

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 "—Limitations on Remedies."

Ballot Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. 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 City or local districts to increase revenues or to increase appropriations.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the "District Disclosure Agreement") with the Fiscal Agent, as dissemination agent and Fiscal Agent, the District 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 the District. The Annual Report to be filed by the District is to be filed not later than December 31 of each year, beginning December 31, 2006, and is to include audited financial statements of the School District. The reports will include the information set forth in Section 4 of the District Disclosure Agreement. The requirement that the School District file its audited financial statements as a part of the Annual Report has been included in the District 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. See "SOURCES OF PAYMENT FOR THE BONDS" and "SPECIAL RISK FACTORS—Limited Obligations." The School District 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. The full text of the District Disclosure Agreement is set forth in Appendix C.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. The amount of original issue discount that accrues to the owner of the Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

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

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such

amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of taxexempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond as to which any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The form of Bond Counsel's opinion with respect to the Bonds is attached as Appendix D. In addition to serving as Bond Counsel in connection with the issuance and sale of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, has served as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriter. Bond Counsel and Underwriter's Counsel express no opinion to the owners of the Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds, and expressly disclaim any duty to advise the owners of the Bonds as to matters related to the Official Statement.

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 verified the mathematical accuracy of (a) certain computations relating to the adequacy of the Federal Securities (as defined in the Escrow Agreements) 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 yields of the Bonds and of investments in the Escrow Funds.

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 District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened which questions the existence of the District or the District or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") is expected to assign the Bonds the rating of "AAA" and Moody's Investors Service ("Moody's") is expected to assign the Bonds the rating of "AAA" based upon the issuance of the Financial Guaranty Insurance Policy by the Insurer. 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. 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 UBS Securities LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$44,157,802.30 (being \$44,980,000.00 aggregate principal amount thereof, less Underwriter's discount of \$202,410.00 and less net original issue discount of \$619,787.70). The purchase agreement 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 agreement, 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 hereof. The offering price may be changed from time to time by the Underwriter.

FINANCIAL INTERESTS

The fees being paid to the Underwriter's Counsel 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

The District is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the District 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 President of the Board has been duly authorized by the Board acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

By: /s/ Marlene M. Draper

President of the Board of Trustees

APPENDIX A

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 90-2 (TALEGA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Capistrano Unified School District Community Facilities District No. 90-2 (Talega) ("CFD No. 90-2") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Golf Course Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property," "Taxable Senior Housing Property," "Undeveloped Non-Residential Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 90-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. **DEFINITIONS**

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 90-2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, CFD No. 90-2 or any designee thereof of complying with School District, CFD No. 90-2 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 90-2 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the School District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or CFD No. 90-2 for any other administrative purposes of CFD No. 90-2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Assessor's Parcel" means a lot or parcel shown in an Assessor's Parcel Map with an assigned Assessor's Parcel number.

- "Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.
- "Assigned Special Tax" means the Special Tax for each Land Use Class of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- **"Backup Special Tax"** means the Special Tax applicable to each Assessor's Parcel of Developed Property and Taxable Senior Housing Property, as determined in accordance with Section C below.
- "Board" means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 90-2.
- "Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 90-2 under the Act.
- **"CFD Administrator"** means an official of the School District, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.
- "CFD No. 90-2" means Capistrano Unified School District Community Facilities District No. 90-2 (Talega).
- "County" means the County of Orange.
- **"Developed Property"** means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Taxable Senior Housing Property, for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.
- **"Expected Special Tax"** means the Special Tax for each Acre of Undeveloped Non-Residential Property, as determined in accordance with Section C below.
- "Fiscal Year" means the period starting July 1 and ending on the following June 30.
- "Golf Course Property" means the area consisting of up to 206.6 acres of the golf course property described and geographically identified in Attachment A to this Rate and Method of Apportionment and in Exhibit A of the Talega Area Plan dated September 8, 1998 for planning areas B, C, G, H, and I, and portions of planning areas D and E, as amended from time-to-time or modified pursuant to a precise site plan for such golf course property.
- "Indenture" means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.
- "Land Use Class" means any of the classes listed in Table 1.
- **"Maximum Special Tax"** means the maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor's Parcel of Taxable Property.
- "Non-Residential Floor Area" means the total building square footage of the building(s) located on an Assessor's Parcel, measured from outside wall to outside wall, exclusive of overhangs, porches, patios, carports, or similar spaces attached to the building but generally open on at least two sides.

The determination of Non-Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.

- "Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permits) was issued for a non-residential use.
- "Outstanding Bonds" means all Bonds which are deemed to be outstanding under the Indenture.
- **"Property Owner Association Property"** means any property within the boundaries of CFD No. 90-2 that is owned by or dedicated to a property owner association, including any master or sub-association.
- **"Proportionately"** means for Developed Property and Taxable Senior Housing Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor's Parcels of Developed Property and Taxable Senior Housing Property within CFD No. 90-2. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 90-2. For Undeveloped Non-Residential Property, "Proportionately" means the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Non-Residential Property in CFD No. 90-2.
- **"Public Property"** means any property within the boundaries of CFD No. 90-2 that is used for rights-of-way or any other purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County or any other public agency, provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.
- "Religious Property" means all property within the boundary of CFD No. 90-2 which is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.
- "Residential Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.
- "Residential Floor Area" means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor's Parcel.
- "School District" means the Capistrano Unified School District.
- "Senior Housing Property" means all Assessor's Parcels which are used or intended to be used as senior citizen housing, residential care facilities for the elderly, or multi-level care facilities for the elderly as referred to in California Government Code Section 65995.1. An Assessor's Parcel shall only be designated as Senior Housing Property if Senior Citizen Restrictions have been recorded with respect to such Assessor's Parcel.
- "Senior Citizen Restriction" means a restriction limiting the use of an Assessor's Parcel to senior citizen housing, as defined in Section 65995.1 of the Government Code, under a final map, other governmental entitlements, or a declaration of covenants, conditions and restrictions or any similar binding recorded instrument that may not be amended to remove such use limitation without prior written notice to School District.

- "Special Tax" means the special tax to be levied in each Fiscal Year on each Assessor's Parcel of Developed Property, Undeveloped Property, Undeveloped Non-Residential Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Taxable Senior Housing Property to fund the Special Tax Requirement.
- "Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.
- "State" means the State of California.
- **"Taxable Golf Course Property"** means all of the Assessor's Parcels of Golf Course Property that are not exempt pursuant to Section E below.
- **"Taxable Property"** means all of the Assessor's Parcels within the boundaries of CFD No. 90-2 which are not exempt from the Special Tax pursuant to law or Section E below.
- "Taxable Property Owner Association Property" means all Assessor's Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.
- "Taxable Public Property" means all Assessor's Parcels of Public Property that are not exempt pursuant to Section E below.
- "Taxable Religious Property" means all Assessor's Parcels of Religious Property that are not exempt pursuant to Section E below.
- "Taxable Senior Housing Property" means all Assessor's Parcels of Senior Housing Property that are not exempt pursuant to Section E below.
- "Trustee" means the trustee or fiscal agent under the Indenture.
- "Undeveloped Non-Residential Property" means, for each Fiscal Year, all Assessor's Parcels that are zoned for commercial or industrial use, and for which no building permit for a commercial or industrial structure has been issued.
- **"Undeveloped Property"** means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, Taxable Senior Housing Property, or Undeveloped Non-Residential Property.

B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within CFD No. 90-2 shall be classified as Developed Property, Taxable Golf Course Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, Taxable Senior Housing Property, Undeveloped Non-Residential Property, or Undeveloped Property, and shall be subject to Special Taxes in

accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Developed Property shall be further classified as Residential Property and Non-Residential Property.

Residential Property shall be assigned to Land Use Class 1, Taxable Senior Housing Property shall be assigned to Land Use Class 2, and Non-Residential Property shall be assigned to Land Use Class 3.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property and Taxable Senior Housing Property

a. <u>Maximum Special Tax</u>

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property or Taxable Senior Housing Property shall be the greater of (i) the amount derived by application of the Assigned Special Tax or (ii) the amount derived by application of the Backup Special Tax.

b. <u>Assigned Special Tax</u>

The Assigned Special Tax for each Land Use Class is shown below in Table 1. The Assigned Special Tax for Residential Property and Taxable Senior Housing Property shall be based on the amount of Residential Floor Area on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the amount of Non-Residential Floor Area on the Assessor's Parcel.

Assigned Special Taxes for Developed Property and Taxable Senior Housing Property
For Fiscal Year 1999-2000Community Facilities District No. 90-2

TABLE 1

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.3294 per square foot of Residential Floor Area
2	Taxable Senior Housing Property	\$0.3294 per square foot of Residential Floor Area
3	Non Residential Property	\$0.0599 per square foot of Non-Residential Floor Area

c. Backup Special Tax

The Fiscal Year 1999-2000 Backup Special Tax for an Assessor's Parcel of Developed Property and Taxable Senior Housing Property shall equal \$0.1670 per square foot of the Assessor's Parcel, provided however, that the Backup Special Tax shall not apply to the first 100 Acres of Non-Residential Property, as determined by the CFD Administrator.

d. <u>Increase in the Assigned Special Tax and Backup Special Tax</u>

On each July 1, commencing on July 1, 2000, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property

a. <u>Maximum Special Tax</u>

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property in CFD No. 90-2 shall be \$6,177 per Acre.

b. <u>Increase in the Maximum Special Tax</u>

On each July I, commencing on July I, 2000, the Maximum Special Tax for Undeveloped Property, Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property, and Taxable Religious Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

3. Undeveloped Non-Residential Property

a. <u>Expected Special Tax</u>

The Fiscal Year 1999-2000 Expected Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$1,123 per Acre.

b. <u>Maximum Special Tax</u>

The Fiscal Year 1999-2000 Maximum Special Tax for Undeveloped Non-Residential Property in CFD No. 90-2 shall be \$6,177 per Acre.

c. Increase in the Maximum Special Tax and Expected Special Tax

On each July 1, commencing on July 1, 2000, the Maximum Special Tax and Expected Special Tax for Undeveloped Non-Residential Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

<u>First</u>: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property and Taxable Senior Housing Property at up to 100% of the applicable Assigned Special Tax as needed to satisfy the Special Tax Requirement.

<u>Second</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property and Undeveloped Non-Residential Property at up to 100% of the Maximum Special Tax for Undeveloped Property and up to100% of the Expected Tax for Undeveloped Non-Residential Property, respectively;

<u>Third</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of Special Tax on each Assessor's Parcel of Undeveloped Non-Residential Property shall be increased Proportionately from the Expected Special Tax up to 100% of the Maximum Special Tax for Undeveloped Non-Residential Property;

<u>Fourth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property or Taxable Senior Housing Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

<u>Fifth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Golf Course Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

E. EXEMPTIONS

No Special Tax shall be levied on up to 1,230.74 Acres of Property Owner Association Property, Public Property and/or Religious Property and 206.6 Acres of Golf Course Property. In addition, no Special Tax shall be levied on up to 66.02 Acres of Senior Housing Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Golf Course Property, Property Owner Association Property, Public Property, Religious Property or Senior Housing Property Owner Association Property, Public Property, Religious Property, or Senior Housing Property Owner Association Property, Public Property, Religious Property, or Senior Housing Property its tax-exempt status will be revoked.

F. REVIEW/APPEAL COMMITTEE

The Board shall establish as part of the proceedings and administration of CFD No. 90-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 90-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means either \$33,938,000 million in 1999 dollars, which shall increase by the Construction Inflation Index on July 1, 2000, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 90-2 under the authorized bonding program for CFD No. 90-2, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Construction Inflation Index" means the annual percentage change in the <u>Engineering News-Record</u> Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the <u>Engineering News-Record</u> Building Cost Index for the City of Los Angeles.

"Future Facilities Costs" means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by Previously Issued Bonds, minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment, and minus public facilities costs paid directly with Special Taxes.

"Outstanding Bonds" means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 90-2 prior to the date of prepayment.

1. Prepayment in Full

All Assessor's Parcels of Developed Property or Taxable Senior Housing Property and Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 90-2 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

Bond Redemption Amount

plus Redemption Premium
plus Future Facilities Amount
plus Defeasance Amount

plus Administrative Fees and Expenses

less Reserve Fund Credit
Less Capitalized Interest Credit

Total: equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

Paragraph No.:

- 1. For Assessor's Parcels of Developed Property or Taxable Senior Housing Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property or Undeveloped Non-Residential Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessors Parcel.
- 2. (a) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire CFD No. 90-2 based on the Developed Property. Special Taxes and Taxable Senior Housing Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 90-2, excluding any Assessor's Parcels which have been prepaid, and
 - (b) Divide the Backup Special Tax computed pursuant to paragraph 1 by the estimated Backup Special Taxes at buildout of CFD No. 90-2 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
- 3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
- 4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
- 5. Compute the current Future Facilities Costs.
- 6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
- 7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
- 8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.

- 9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
- 10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
- 11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
- 12. Verify the administrative fees and expenses of No. 90-2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
- 13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
- 14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
- 15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
- 16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 90-2.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 90-2 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

2. Prepayment in Part

The Maximum Special Tax on an Assessor's Parcel of Developed Property or Taxable Senior Housing Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

 $PP = P_E F$.

These terms have the following meaning:

PP = the partial prepayment

P_E = the Prepayment Amount calculated according to Section H.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially preparing the Annual Special Tax.

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the percentage by which the Maximum Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and will charge a fee to the owner requesting prepayment for providing this figure.

With respect to any Assessor's Parcel that is partially prepaid, the School District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 90-2 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2041-42.

(Attachment A describing and identifying the Golf Course Property has been omitted.)

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APPENDIX B

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Bond Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Bond Indenture for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Official Statement have the meaning set forth in the Bond Indenture.

DEFINITIONS

The terms set forth below shall have the meanings ascribed to them for all purposes of the Indenture unless the context clearly indicates some other meaning as follows:

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

"Administrative Expenses" means the administrative costs incurred by the School District staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including all attorneys' fees and other costs related thereto, the fees and expenses of the Fiscal Agent, any fees for credit enhancement for the Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District's compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds and the District and arbitrage rebate, costs incurred by the District in pursuit of State funding, the premium for a reserve fund policy and any other costs otherwise incurred by the School District staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

"Administrative Expense Account" means the account by such name in the Special Tax Fund created and established pursuant to the Indenture.

"Administrative Expense Cap" means the amount of \$75,000, with such amount escalating by 2% per Bond Year beginning September 2, 2006, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District, including the Special Reserve Fund.

"Alternative Penalty Account" means the account by such name created and established in the Rebate Fund pursuant to the Indenture.

"Annual Debt Service" means the principal amount of any Outstanding Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds in such Bond Year, if the Bonds are retired as scheduled.

"Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (1) For all purposes including defeasance investments in refunding escrow accounts (the Fiscal Agent is entitled to rely upon investment direction of the District as a certification that such investment is a Permitted Investment):
 - (a) cash; or

- (b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S., including:
 - U.S. treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding 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).

- (2) For all purposes other than defeasance investments in refunding escrow accounts:
- (a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;
- (b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies approved by the Insurer;
- (c) U.S. dollar denominated deposit accounts and bankers' acceptances with domestic commercial banks (including those of the Fiscal Agent and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);
- (d) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;
- (e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Fiscal Agent or its affiliates provide investment advisory or other management services;
- (f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successors thereto; or

- (ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (g) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;
- (h) investment agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);
- (i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Fiscal Agent is authorized to register such investment in its name;
- (j) subject to approval by the Insurer, the Orange County Pooled Education Investment Fund (including the Money Market Fund and Extended Fund); and
- (k) other forms of investments (including repurchase agreements) approved in writing by the Insurer.

The value of the above investments shall be determined as follows:

- (a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Fiscal Agent shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.
- (b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest.
- (c) As to any investment not specified above: the value thereof established by prior agreement between the District, the Fiscal Agent and the Insurer.

To the extent that any of the requirements concerning Authorized Investments embodies a legal conclusion, the Fiscal Agent shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, that such requirement has been met.

"Authorized Representative of the District" means the Deputy Superintendent, Administration or any other person or persons designated by the Board of Trustees of the School District and authorized to act on behalf of the District by a written certificate signed on behalf of the School District by the President of the Board of Trustees and containing the specimen signature of each such person.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature 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 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.

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

"Bonds" means the District's Series 2006 Special Tax Refunding Bonds issued pursuant to the Indenture.

"Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds shall begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

"Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the City where the corporate trust office of the Fiscal Agent is located, are not required or authorized to remain closed.

"Certificate of the Deputy Superintendent, Administration" means a written certificate or warrant request executed by the Deputy Superintendent, Administration, or his written designee, on behalf of the District.

"Certificate of the Special Tax Administrator" means a certificate of David Taussig & Associates in its capacity as the consultant engaged by the School District to administer the calculation and collection of the Special Taxes, or any successor entity acting in such capacity.

"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.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement dated as of June 1, 2006 between the District and U.S. Bank National Association, as dissemination agent, together with any amendments thereto.

"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, legal fees and expenses, costs of printing the Bonds and the preliminary and final official statements for the Bonds, fees of financial consultants, reserve fund policy premiums District formation and related administration costs and all other related fees and expenses, as set forth in a Certificate of the Deputy Superintendent, Administration.

"Costs of Issuance Account" means the Account by that name created and established in the Acquisition and Construction Fund pursuant to the Indenture.

"Delivery Date" means the date on which the Bonds were issued and delivered to the initial purchasers.

"District" means Community Facilities District No. 90-2 of the Capistrano Unified School District established pursuant to the Act and the Resolution of Formation.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"DTC Participants" means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

"Escrow Agreements" means the Escrow Agreements, each dated as of June 1, 2006, by and between the District and the Escrow Bank.

"Escrow Bank" means U.S. Bank National Association, and its successors and assigns, as escrow bank under the Escrow Agreements.

"Federal Securities" means any of the investments listed in (1)(a) or (1)(b) of the definition of Authorized Investments.

"Fiscal Agent" means U.S. Bank 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 the Indenture and any successor thereto.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next following June 30.

"Gross Taxes" means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

"Guaranty Agreement" means that certain Debt Service Reserve Fund Policy Agreement dated as of the Delivery Date by and between the District and the Insurer.

"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 the School District:
- (2) does not have any substantial interest, direct or indirect, in the District or the School District; and
- (3) is not connected with the District or the School District as a member, officer or employee of the District or the School District, but who may be regularly retained to make annual or other reports to the District or the School District.

"Indenture" means the Bond Indenture, together with any Supplemental Indenture entered into pursuant to the Indenture.

"Insurance Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which the Insurance Trustee or lending institutions in the State of New York are authorized or required by law or executive order to remain closed.

"Insurance Policy" means the financial guaranty insurance policy issued by the Insurer insuring the payment when due of the principal and interest on the Bonds as provided therein.

"Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto or assignee thereof.

"Interest Account" means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

"Interest Payment Date" means March 1 and September 1 of each year commencing September 1, 2006.

"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.

"Maximum Annual Debt Service" means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds by adding the following for each 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.

"National Repositories" means any Nationally Recognized Municipal Securities Information Repository for purpose of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repository P. O. Box 840 Princeton, New Jersey 08542-0840 Phone: (609) 279-3200 Fax: (609) 279-5962

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

Thompson NRMSIR Attention: Municipal Disclosure 395 Hudson Street, 3rd Floor New York, New York 10014 (212) 807-3814 FAX (212) 989-9282

DPC Data Inc. One Executive Drive Fort Lee, NJ 07024 Phone: 201-346-0701

Fax: 201-947-0107

E-mail: nrmsir@dpcdata.com

"Net Taxes" means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses.

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

- (1) Bonds theretofore cancelled or surrendered for cancellation in accordance with 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 or any applicable Supplemental Indenture; and
- Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest with respect to the Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District.

"Person" means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

"Principal Account" means the Account by such name created and established in the Special Tax Fund pursuant to the Indenture.

"Principal Office of the Fiscal Agent" means the office of the Fiscal Agent located in Los Angeles, California 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, collectively, the Series 2001 Special Tax Refunding Bonds of the District, originally issued in the aggregate principal amount of \$23,050,000, and the Series 2002 Special Tax Refunding Bonds of the District, originally issued in the aggregate principal amount of \$17,605,000.

"Project" means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

"Project Account" means the Account by such name created and established in the Acquisition and Construction Fund pursuant to the Indenture.

"Project Costs" means the amounts necessary to finance the Project, to create and replenish any necessary reserve accounts, to pay the initial and annual costs associated with the Bonds, including, but not limited to, remarketing, credit enhancement, reserve fund policy premiums, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds and the formation of the District, and to pay any other "incidental expenses" of the District, as such term is defined in the Act.

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

"Rebate Account" means the Account by such name created and established in the Rebate Fund pursuant to the Indenture.

"Rebate Fund" means the fund by such name created and established pursuant to the Indenture.

"Rebate Regulations" means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

"Record Date" means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

"Redemption Account" means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

"Regulations" means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

"Representation Letter" means the representation letter or letters from the District to DTC.

"Reserve Account" means the account by such name created and established in the Special Tax Fund pursuant to the Indenture.

"Reserve Credit Facility" means a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in the Reserve Account, if any, provide an aggregate amount equal to the Reserve Requirement, so long as (a) the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in the highest rating category by A. M. Best & Company, Standard & Poor's Corporation or Moody's Investors Service and (b) so long as the Insurance Policy remains in effect, the Insurer has consented to the provider and structure of such policy of insurance, surety bond, letter of credit or other comparable credit facility. Initially the Reserve Credit Facility will be the Reserve Policy.

"Reserve Policy" shall mean the debt service reserve fund policy issued by the Insurer guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitation set forth therein.

"Reserve Requirement" means, as of any date of calculation by the District, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds, if any, less original issue discount, if any, plus original issue premium, if any, or (2) Maximum Annual Debt Service, or (3) 125% of the average Annual Debt Service of the Outstanding Bonds, if any. An amount equal to \$7,804,125 of the Reserve Requirement will be initially satisfied with 50% cash and 50% the Reserve Policy.

Resolution of Formation" means Resolution No. 9899-112 adopted by the Board of Trustees of the School District on April 26, 1999, pursuant to which the School District amended certain provisions pertaining to the District.

"RMA" means the Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District at the June 14, 1999 election, as further amended from time to time.

"School District" means the Capistrano Unified School District.

"Sinking Fund Payment" means the annual payment in those years indicated in the Indenture to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Indenture to retire the Term Bonds.

"Six-Month Period" means the period of time beginning on the Delivery Date of each issue of Bonds as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds (and any obligations that refund an issue of the Bonds).

"Special Reserve Fund" means the Fund by such name created and established pursuant to the Indenture.

"Special Taxes" means the taxes authorized to be levied by the District in accordance with the Resolution of Formation, the Act and the voter approval obtained at the June 14, 1999 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds.

"Special Tax Fund" means the fund by such name created and established pursuant to the Indenture.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of McGraw-Hill, its successors and assigns.

"Supplemental Indenture" means any supplemental indenture entered into in accordance with the provisions thereof amending or supplementing the Indenture.

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

"Underwriter" means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of the Bonds.

BOND TERMS

Type and Nature of Bonds. Neither the faith and credit nor the taxing power of the School District, the State of California or any political subdivision other than the District 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 nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Indenture. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) 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 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 Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of 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 Trustees of the School District nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Notwithstanding anything to the contrary contained in the Indenture, the 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 may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Equality of Bonds and Pledge of Net Taxes. Pursuant to the Act and the Indenture, the Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of (including Sinking Fund Payments) the Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are thereby set aside for the payment of the Bonds. The Net Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are thereby pledged to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge shall constitute a first lien on such assets. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Special Reserve Fund, shall no longer be considered to be pledged to the Bonds, and none of the Rebate Fund, the Special Reserve Fund, the Administrative Expense Account of the Special Tax Fund nor the Acquisition and Construction Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in the Indenture or any Supplemental Indenture shall preclude, subject to the limitations contained thereunder, 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 amended after the date of the Indenture, or under any other law of the State of California.

Registration of Exchange or Transfer. Subject to the limitations set forth in the Indenture as described in the following paragraph, 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 office of the Fiscal Agent, accompanied by delivery of 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 the office of the Fiscal Agent for a like aggregate principal amount of Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, as applicable, of the same issue and 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 any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Mutilated, Lost, Destroyed or Stolen Bonds. If any Bond shall become mutilated, the District shall execute, and the Fiscal Agent shall authenticate and deliver, a new Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be cancelled by the Fiscal Agent pursuant to the Indenture. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the District and the Fiscal Agent shall be given, the District shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond of like tenor, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. Any Bond issued in lieu of any Bond alleged to be mutilated, lost, destroyed or stolen,

shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds issued under the Indenture. The Fiscal Agent shall not treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds.

Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and the recital contained in the Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Creation of Funds; Application of Proceeds. Under the Indenture were created and established and shall be maintained by the Fiscal Agent the following funds and accounts:

- (a) The Community Facilities District No. 90-2 (Talega) Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).
- (b) The Community Facilities District No. 90-2 (Talega) Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).
- (c) The Community Facilities District No. 90-2 (Talega) Special Reserve Fund (the "Special Reserve Fund").
- (d) The Community Facilities District No. 90-2 (Talega) Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Project Account.)

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

In connection with the issuance of the Bonds, the Fiscal Agent, at the written direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds.

Deposits to and Disbursements from Special Tax Fund. The Fiscal Agent shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund in accordance with the terms of the Indenture to be held by the Fiscal Agent. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (a) The Administrative Expense Account of the Special Tax Fund;
- (b) The Interest Account of the Special Tax Fund;

- (c) The Principal Account of the Special Tax Fund;
- (d) The Redemption Account of the Special Tax Fund;
- (e) The Reserve Account of the Special Tax Fund;
- (f) The Rebate Fund; and
- (g) The Special Reserve Fund.

At the maturity of all of the Bonds and, after all principal and interest then due on the Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund. The Fiscal Agent shall not less often than annually transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District; provided, however, that the total deposit made to the Administrative Expense Account in any Bond Year shall not exceed the Administrative Expense Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized Representative of the District.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds will be made when due, after making the transfer required by the Indenture, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

- (a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest on the Bonds due on the Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due.
- (b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September I of each year, commencing September 1, 2006, shall equal the principal payment due on the Bonds maturing on such September 1 and any principal payment on the Bonds due on a previous September I which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(a) Before each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Interest Account and the Principal Account of the Special Tax Fund as required by the Indenture, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the

Special Tax Fund the amount needed, to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the paragraph below. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in the Indenture and in any Supplemental Indenture for such Term Bonds.

- (b) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Indenture and to the Redemption Account for Sinking Fund Payments then due pursuant to subparagraph (a) above, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.
- (c) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds in the manner provided in the Indenture. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Indenture. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the Bonds on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. Notwithstanding any provision of the Act to the contrary, the amounts in the Reserve Account shall be applied as follows:

- (a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on any Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Indenture upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.
- (b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in the Indenture, the Fiscal Agent shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the

Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

- (c) In connection with an optional redemption of the Bonds under the Indenture in accordance with any Supplemental Indenture, or a partial defeasance of the Bonds in accordance with the Indenture, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds, amounts in the Reserve Account may be applied, upon discretion of the District to pay the principal of and interest due on the Bonds in the final Bond Year. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this paragraph shall be withdrawn from the Reserve Account on the fifth Business Day before each March 1 and September 1 and transferred to the Interest Account of the Special Tax Fund.
- (d) The District may at any time elect to maintain the Reserve Requirement in whole or in part by obtaining a Reserve Credit Facility. In the case of such an election, the District will direct the Fiscal Agent to acquire such Reserve Credit Facility and to pay from money in the Reserve Account the costs associated with the acquisition of the Reserve Credit Facility. Any money in the Reserve Account after the acquisition of such Reserve Credit Facility and payment of the appropriate costs shall be transferred to or at the direction of the Agency for its lawful purposes. In the event any such Reserve Credit Facility is so acquired, the Fiscal Agent shall draw on it in accordance with its terms (i) when and if moneys are needed pursuant to the provisions of this subsection (d); provided, however, that the Fiscal Agent must make demand at least five (5) days prior to the date that such funds are needed; and (ii) prior to the stated maturity of such Reserve Credit Facility. In the event the Reserve Requirement is satisfied by a combination of cash and a Reserve Credit Facility, the Fiscal Agent shall draw down completely on the cash on deposit for such purpose in the Reserve Account before any demand is made on the Reserve Credit Facility.
- (e) The Reserve Account will initially be funded by the deposit of cash and the Reserve Policy in an amount equal to the Reserve Requirement. As long as the Reserve Policy shall be in full force and effect, the District and Fiscal Agent agree to comply with the following provisions:
- In the event that moneys on deposit in the Interest Account and Principal Account, plus all (i) amounts on deposit in and credited to the Reserve Account in excess of the amount of the Reserve Policy, are insufficient to pay the amount of principal and interest coming due, then on the later of: (A) one (1) day after receipt by the General Counsel of the Insurer of a demand for payment in the form attached to the Reserve Policy as Attachment 1 (the "Demand for Payment"), duly executed by the Fiscal Agent certifying that payment due under the Indenture has not been made to the Fiscal Agent; or (B) the payment date of the Bonds as specified in the Demand for Payment presented by the Fiscal Agent to the General Counsel of the Insurer, the Insurer will make a deposit of funds in an account with the Fiscal Agent or its successor, in New York, New York, or at such other address as the Fiscal Agent shall designate, sufficient for the payment to the Fiscal Agent, of amounts which then due to the Fiscal Agent under the Indenture (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Reserve Policy; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Reserve Policy, includes amounts available under a letter of credit, insurance policy, Reserve Policy or other such funding instrument (the "Additional Funding Instrument"), draws on the Reserve Policy and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

- (ii) the Fiscal Agent shall, after submitting to the Insurer the Demand for Payment as provided in (i) above, and upon a written request therefore by the Insurer make available to the Insurer all records relating to the funds and accounts maintained under the Indenture.
- (iii) the Fiscal Agent shall, upon receipt of moneys received from the draw on the Reserve Policy, as specified in the Demand for Payment, credit the Reserve Account to the extent of moneys received pursuant to such Demand for Payment.
- (iv) the Reserve Account shall be immediately replenished following a payment by the Insurer and the Fiscal Agent shall allocate such moneys in the following priority: (A) principal and interest on the Reserve Policy and on the Additional Funding Instrument shall be paid from first available Net Taxes on a pro rata basis; (B) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Reserve Policy and the Additional Funding Instrument shall be deposited from next available Net Taxes.

The District may substitute any policy of insurance, letter of credit or surety bond in order to meet the Reserve Requirement provided that the following requirements are met:

- 1. A surety bond or insurance policy issued to the Fiscal Agent, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service with respect to the Bonds (a "municipal bond insurer") may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
- 2. A surety bond or insurance policy issued to the Fiscal Agent, by an entity other than a municipal bond insurer may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the form and substance of such instrument and the issuer thereof shall be approved by the Insurer.
- 3. An unconditional irrevocable letter of credit issued to the Fiscal Agent, by a bank may be deposited in the Reserve Account to meet the Reserve Requirement, or a portion thereof, if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the District and the Fiscal Agent, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
- 4. If such notice indicates that the expiration date shall not be extended, the District shall deposit in the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Requirement, or a portion thereof, on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Account credit instrument is replaced by a Reserve Account credit instrument meeting the requirements in any of 1-3 above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The District shall, in turn, direct the Fiscal Agent to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Account is fully funded in its required amount.

- 5. The use of any Reserve Account credit instrument pursuant to this paragraph shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).
- 6. The obligation to reimburse the issuer of a Reserve Account credit instrument for any fees, expenses, claims or draws upon such Reserve Account credit instrument shall be subordinate to the payment of debt service with respect to the Bonds. The right of the issuer of a Reserve Account credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Account. The Reserve Account credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Account credit instrument becomes insolvent or (b) the issuer of a Reserve Account credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Account credit instrument shall be subordinate to the cash replenishment of the Reserve Account.
- 7. If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the District shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal the Reserve Requirement with respect to all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Reserve Account credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Account credit instrument becomes insolvent, the District shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal to Reserve Requirement, or a portion thereof, on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such

instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence.

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

Special Reserve Fund After making the transfers required under the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund, if any, to the Special Reserve Fund, other than amounts in the Special Tax Fund which the District has deemed available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Special Reserve Fund shall be transferred by the Fiscal Agent, at the written direction of the District, (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement, and (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses. In the event unexpended amounts remain on deposit in the Special Reserve Fund after the foregoing transfers, if any, the District shall apply such unexpended amounts to, in its sole discretion, either (i) pay Project Costs, (ii) to reduce the next fiscal year's Special Tax levy by depositing such amount in the Special Tax Fund, or (iii) for any other lawful purpose of the District.

The amounts in the Special Reserve Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose in the manner described in the Indenture. In the event that the District reasonably expects to use any portion of the moneys in the Special Reserve Fund to pay debt service on any Outstanding Bonds, upon the written direction of the District, the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Special Reserve Fund shall be invested in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Acquisition and Construction Fund.

(a) The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance. Amounts for Project Costs or Costs of Issuance shall be disbursed by the Fiscal Agent from the Project Account in the Acquisition and Construction Fund pursuant to a Certificate of the Deputy Superintendent, Administration, substantially in the form of Exhibit B to the Indenture, which must be submitted in connection with each requested disbursement.

(b) Upon receipt of a Certificate of the Deputy Superintendent, Administration that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Special Reserve Fund.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of an Authorized Representative of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund, the Special Reserve Fund and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited in the Interest Account of the Special Tax Fund, and (iii) all other investment earnings shall be deposited in the Acquisition and Construction Fund until the balance therein equals zero and thereafter shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may be invested by the Fiscal Agent on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

- (a) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.
- (b) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund. Notwithstanding anything in the Indenture to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds shall not be invested at yields greater than those set forth in the Tax Certificate.
- (c) One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Fiscal Agent, and one-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than three years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an Investment Agreement to the final maturity of Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds shall mature later than the respective final maturity date of the Bonds to which such Subaccount relates. Notwithstanding anything in the Indenture to the contrary, amounts in the Reserve Fund on the Delivery Date for the bonds shall not be invested at yields greater than those set forth in the Tax Certificate.
- (d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Indenture.
- (e) In the absence of written investment directions from the District, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (2)(e) of the definition thereof.

The Fiscal Agent shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or

from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value and marked to market at least annually. In making any valuations of investments under the Indenture, the Fiscal Agent may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything in the Indenture to the contrary, the Fiscal Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture. The Fiscal Agent may act as principal or agent in connection with the acquisition or disposition of any Authorized Investments. Any Authorized Investments that are registrable securities shall be registered in the name of the Fiscal Agent.

For investment purposes, the Fiscal Agent may commingle the funds and accounts established thereunder (other than the Rebate Fund) but shall account for each separately.

The Fiscal Agent or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Fiscal Agent under the Indenture.

The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Indenture.

COVENANTS AND WARRANTY

Warranty. The District shall preserve and protect the security pledged under the Indenture to the Bonds against all claims and demands of all persons.

Covenants. So long as any of the Bonds issued thereunder are Outstanding and unpaid, 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 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 and other amounts deposited to the Special Tax Fund:

<u>Punctual Payment; Against Encumbrances</u>. The District covenants that it will receive all Special Taxes in trust and will immediately deposit such amounts 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 Special Taxes shall 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 that Net Taxes are available therefor, and that the payments into the Funds and Accounts created thereunder 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 of the Bonds issued thereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, except bonds refunding the Bonds. Nothing in

the Indenture shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds.

Levy of Special Tax. The District has levied the Special Tax since Fiscal Year 1999-2000 and in each Fiscal Year thereafter and, notwithstanding the determination by the District in the Resolution of Issuance that the final term of the District special tax levy is shortened from fiscal year 2041-42 to fiscal year 2036-37, provided that, notwithstanding the foregoing, the District special tax term shall not be reduced, and the District special tax shall continue to be levied, for so long as the District special tax is needed to pay debt service on bonds of the District, so long as any Bonds issued under the Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available by the District for such purpose, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and (ii) 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 for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in an amount in excess of \$10,000 so long as (1) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (2) with respect to the Bonds, the District is not in default in the payment of the principal of or interest on the Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds.

The District covenants that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

<u>Payment of Claims</u>. 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 Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds then Outstanding; provided that nothing in the Indenture contained 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.

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 levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than 10% of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

<u>Federal Tax Covenants</u>. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, 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) <u>Private Activity</u>. 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 issued on a tax-exempt basis for federal income tax purposes to be "private activity bonds" within the meaning of Section 141 of the Code;
- (2) <u>Arbitrage</u>. 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 issued on a tax-exempt basis for federal income tax purposes to be "arbitrage bonds" within the meaning of Section 148 of the Code;
- (3i) <u>Federal Guaranty</u>. 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 issued on a tax-exempt basis for federal income tax purposes to be "federally guaranteed" within the meaning of Section 149(b) of the Code;
- (4) <u>Information Reporting</u>. 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) <u>Hedge Bonds</u>. 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 issued on a tax-exempt basis for federal income tax purposes 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 as; and
- (6) <u>Miscellaneous</u>. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture, including payment of amounts required to pay the District's pro rata share of any rebate amounts owing to the United States on the Bonds.
- (7) Other Tax Exempt Issues. The District will not use proceeds of other tax exempt securities to redeem any 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.
- (8) <u>Subsequent Opinions</u>. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation ("SYCR"), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds is excluded from gross income for federal income tax purposes.

Reduction of Maximum Special Taxes. The District finds and determines in the Indenture that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines in the Indenture that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant in the Indenture, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to

levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District.

<u>Covenants to Defend</u>. The District covenants that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Continuing Disclosure and Reporting Requirements. The District covenants to comply with the terms of the Continuing Disclosure Agreement executed by and between the District and the Fiscal Agent executed by it on the Delivery Date with respect to compliance with Rule 15c2-12.

Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District and Fiscal Agent may from time to time, and at any time, without notice to or consent of any of the Bondowners, but with the written consent of the Insurer so long as the Insurance Policy is in full force and effect, enter into Supplemental Indentures 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 in the Indenture, or to make any other provision with respect to matters or questions arising under the Indenture or in any additional resolution or order, provided that such action is not materially adverse to 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 or which further secure Bond payments;
- (c) to provide for the issuance of any bonds issued to refund the Bonds, and to provide the terms and conditions under which such refunding bonds may be issued, subject to and in accordance with the provisions of the Indenture;
- (d) to modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the Indenture, or to comply with the Code or regulations issued thereunder 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 then Outstanding; or
- (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 Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Indenture; or
- (f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the Indenture, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding shall have the right to consent to and approve the execution and delivery by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, 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 over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Indenture 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 Supplemental Indenture and shall state that a copy is on file at the office of the Fiscal Agent for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding as required by the Indenture. 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 a majority in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Indenture, Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments.

Notice to Rating Agencies. Copies of any amendments pursuant to the Indenture shall be sent to Standard and Poor's and Moody's.

FISCAL AGENT

Removal of Fiscal Agent. The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent, and to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto with the prior written consent of the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder; provided that any such successor, other than the Fiscal Agent, shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. The Fiscal

Agent may also be removed at any time at the request of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, for any material breach of the Fiscal Agent's obligations under the Indenture. Any removal shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent and notice being sent by the successor Fiscal Agent to the Bondowners of the successor Fiscal Agent's identity and address.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Fiscal Agent shall take effect until a successor, acceptable to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, shall be appointed.

Resignation of Fiscal Agent. The Fiscal Agent may at any time resign by giving written notice to the District and the Insurer and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Fiscal Agent. Upon receiving such notice of resignation, the District shall promptly appoint a successor Fiscal Agent satisfying the criteria in the Indenture described above by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent.

Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Fiscal Agent shall take effect until a successor, acceptable to the Insurer so long as the Insurance Policy is in full force and effect and the Insurer has not defaulted on its obligations thereunder, shall be appointed.

Liability of Fiscal Agent. The recitals of fact and all promises, covenants and agreements contained in the Indenture and in the Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Indenture, the Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Indenture, in the Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent shall be under no responsibility or duty with respect to the issuance of the Bonds for value. The Fiscal Agent shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

The Fiscal Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, certificate of an Independent Financial Consultant or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered under the Indenture in good faith and in accordance therewith.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Indenture the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may, in the absence of bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its

discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Fiscal Agent shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Indenture, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for such funds as it shall actually receive. No provision in the Indenture shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of its rights or powers.

The Fiscal Agent shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of 25% (or other percentage provided for in the Indenture) in aggregate principal amount of Bonds Outstanding relating to the exercise of any right, power or remedy available to the Fiscal Agent.

The permissive right of the Fiscal Agent to do things enumerated in the Indenture shall not be construed as a duty.

Merger or Consolidation. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

EVENTS OF DEFAULT; REMEDIES

Events 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, by declaration or otherwise;
- (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) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds.

The District agrees to give notice to the Fiscal Agent, and to the Insurer so long as the Insurance Policy is in full force and effect, immediately upon the occurrence of an event of default under (a) or (b) above and within 30 days of the District's knowledge of an event of default under (c) above.

Remedies of Owners. Upon the occurrence of an Event of Default, the Fiscal Agent may, at the written direction of the Insurer so long as the Insurance Policy is in full force and effect, pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Fiscal Agent under or with respect to the Indenture, including:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such

members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

- (b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or
- (c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and if indemnified to its satisfaction, the Fiscal Agent shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Fiscal Agent, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds.

No remedy conferred upon or reserved to the Fiscal Agent or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or existing after the date of the Indenture, 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.

All amounts received by the Fiscal Agent pursuant to any right given or action taken by the Fiscal Agent under the provisions of the Indenture relating to the Bonds shall be applied by the Fiscal Agent in the following order upon presentation of the several Bonds:

<u>First</u>, to the payment of the fees, costs and expenses of the Fiscal Agent in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Fiscal Agent; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

- (a) first to the payment of all installments of interest on the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,
- (b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and
- (c) third, to the payment of interest on overdue installments of principal and interest on the Bonds on a pro rata basis based on the total amount then due and owing.

Power of Fiscal Agent to Control Proceedings. In the event that the Fiscal Agent, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, upon the written direction of the Insurer so long as the Insurance Policy is in full force and effect, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Fiscal Agent shall not, unless there no longer continues an Event of Default, and without the written consent of the Insurer so long as the Insurance Policy is in full force and effect, discontinue, withdraw, compromise or settle, or

otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Fiscal Agent for the equal benefit and protection of all Owners of Bonds similarly situated and the Fiscal Agent is hereby appointed (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Fiscal Agent as such attorney in fact.

Appointment of Receivers. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Fiscal Agent and of the Owners of the Bonds under the Indenture, the Fiscal Agent shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. 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 and other moneys pledged for such payment.

A waiver of any default or breach of duty or contract by the Fiscal Agent or any Owners 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; provided however that so long as the Insurance Policy is in full force and effect, the Fiscal Agent shall not waive any default of breach of duty or contract without the written consent of Insurer. No delay or omission of the Fiscal Agent or any Owner of any of the Bonds 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 Fiscal Agent or the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Fiscal Agent or the Owners, as the case may be.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Fiscal Agent written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Fiscal Agent to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Fiscal Agent indemnity reasonably acceptable to the Fiscal Agent against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Fiscal Agent shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Fiscal Agent.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of the Indenture.

Termination of Proceedings. In case the Fiscal Agent shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Fiscal Agent and the Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Fiscal Agent shall continue as if no such proceedings had been taken.

Insurer's Rights. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Fiscal Agent for the benefit of the Owners under the Indenture so long as the Insurance Policy is in full force and effect.

Notwithstanding anything in the Indenture in determining whether an Event of Default has occurred in the due and punctual payment of principal of or interest on the Bonds, no effect shall be given to payments made under the Insurance Policy.

For all purposes of provisions of the Indenture governing events of default and remedies thereof, except the giving of notice of default to Owners, the Insurer shall be deemed to be to sole holder of the Bonds so long as the Insurance Policy is in full force and effect.

DEFEASANCE

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 Supplemental Indenture, then the Owner of such Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to 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 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 principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of the Indenture if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, as and when the same 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 (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same shall become due and payable; or
- (c) by depositing with the Fiscal Agent or another escrow bank appointed by the District, in trust, noncallable Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) 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 or Parity Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owner of any such Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Indenture or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant 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, premium, if any, and interest on all Outstanding Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Upon a defeasance, the Fiscal Agent, upon request of the District, shall release the rights of the Owners of such Bonds which have been defeased under the Indenture and any Supplemental 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 thereunder 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 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.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due with respect to the Bonds shall be paid by Insurer pursuant to the Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, and the assignment and pledge of the Net Taxes and all covenants, agreements and other obligations of the District to the Owners shall continue to exist and shall run to the benefit of Insurer, and Insurer shall be subrogated to the rights of such Owners.

Conditions for the Issuance of Additional Indebtedness. The District may issue additional indebtedness payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds solely for the purpose of refunding the Bonds.

INSURANCE PROVISIONS

Claims Under Insurance Policy: Payments by and to Insurer. As long as the Insurance Policy shall be in full force and effect, the District and the Fiscal Agent agree to comply with the following provisions:

- (a) at least one (1) day prior to all Interest Payment Dates, the Fiscal Agent will determine whether there will be sufficient funds in the funds and accounts established under the Indenture to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Fiscal Agent determines that there will be insufficient funds in such funds and accounts, the Fiscal Agent shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Fiscal Agent has not so notified the Insurer one (1) day prior to an Interest Payment Date, the Insurer will make payments of principal or interest due on the Bonds on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Fiscal Agent;
- (b) the Fiscal Agent shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books maintained by the Fiscal Agent and all records relating to the funds and accounts maintained under the Indenture;
- (c) the Fiscal Agent shall provide the Insurer and the Insurance Trustee with a list of Owners of Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks to the Owners of Bonds entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Owners of Bonds entitled to receive full or partial principal or payments from the Insurer;
- (d) the Fiscal Agent shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of Bonds entitled to receive the payment of principal or interest with respect thereto from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Bond Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Fiscal Agent, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Fiscal Agent who shall note on such Bonds the portion of the principal paid by the Fiscal Agent and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, which will then pay the unpaid portion of principal;
- (e) in the event that the Fiscal Agent has actual notice that any payment of principal or interest on a Bond which has become due for payment and which is made to an Owner of Bonds by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Fiscal Agent shall, at the time the Insurer is notified, notify all Certificate Owners that in the event that any Bond Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Fiscal Agent shall furnish to the Insurer its records evidencing the payments of principal and interest on the Bonds which have been made by the Fiscal Agent, and subsequently recovered from Owners of Bonds and the dates on which such payments were made; and
- (f) in addition to those rights granted the Insurer under the Indenture, the Insurer shall, to the extent it makes payment of principal or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Fiscal Agent shall note the Insurer's rights as subrogee on the registration books maintained by the Fiscal Agent upon receipt from the Insurer of proof of the

payment of interest on the Bonds to the Owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Fiscal Agent shall note the Insurer's rights as subrogee on the Bond Registrar maintained by the Fiscal Agent upon surrender of the Bonds by the Owners thereof together with proof of the payment of principal thereof.

Consent of Insurer. Unless otherwise provided in the Indenture, Insurer's consent shall be required for initiation or approval of any action which requires Owner consent.

Effect of Actions on Owners. Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners shall be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Fiscal Agent shall consider the effect on the Owners as if there were no Insurance Policy.

Reorganization Plan Acceptable to Insurer. Any reorganization or liquidation plan with respect to the District must be acceptable to Insurer. In the event of any reorganization or liquidation, Insurer shall have the right to vote on behalf of all Owners of Insurer-insured Bonds absent a default by Insurer under the Insurance Policy insuring such Bonds.

Insurer As Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to Insurer any right, remedy or claim under or by reason of this Insurer is explicitly recognized as being a third-party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted under the Indenture.

Notices To Be Given To Insurer. So long as the Insurance Policy is in full force and effect, the District or the Fiscal Agent, as applicable, shall furnish to Insurer:

Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

Notice of the downgrading by any rating agency of the District's underlying public rating, or the underlying rating on the Bonds, to "non-investment grade;"

Notice of any rate covenant violation with respect to the Bonds;

Notice of any material events pursuant to Rule 15c2 12 under the Securities Exchange Act of 1934, as amended; and

Such additional information as Insurer may reasonably request from time to time.

The Fiscal Agent or District, as applicable, shall notify Insurer of any failure of the District to provide relevant notices, certificates, or other similar documents.

Reimbursement of Expenses. The District shall pay or reimburse the Insurer for any and all charges, fees, costs, and expenses that the Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security under the Indenture or under the Indenture; (ii) the pursuit of any remedies under the Indenture, or otherwise afforded by law or equity; (iii) any amendment, waiver, or other action with respect to or related to the Indenture whether or not executed or completed; (iv) the violation by the District of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Insurer to cure defaults of the District under the Indenture; or (vi) any litigation or other dispute in connection with the Indenture, or the transactions contemplated by the Indenture or thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as

a condition to executing any amendment, waiver, or consent proposed in respect of the Indenture. The obligation of the District to the Insurer shall survive discharge and termination of the Indenture.

MISCELLANEOUS

Unclaimed Moneys. Anything in the Indenture to the contrary notwithstanding, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Fiscal Agent after the date when such Outstanding Bonds become due and payable, shall be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent at the written request of the District or the Fiscal Agent shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds at their addresses as they appear on the registration books of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Indenture, the Bonds issued pursuant thereto shall remain valid and the Bondowners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

APPENDIX C

CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

This Continuing Disclosure Agreement dated as of June 1, 2006 (the "Disclosure Agreement") is executed and delivered by Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "Issuer") and U.S. Bank 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 \$44,980,000 Series 2006 Special Tax Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a Bond Indenture, dated as of June 1, 2006 (the "Bond Indenture"), by and between the Issuer and the Fiscal Agent. The Issuer, the Fiscal Agent and the Dissemination Agent covenant as follows:

- SECTION 1. <u>Purpose of the Disclosure Agreement</u>. 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 Underwriters in complying with the Rule.
- SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Bond Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:
- "Annual Report" shall mean any Annual Report provided by the 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 Deputy Superintendent, Administration of the Issuer or their 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, U.S. Bank 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 purposes of the Rule.
 - "Official Statement" shall mean the Official Statement dated May 23, 2006 relating to the Bonds.
- "Participating Underwriters" shall mean the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is UBS Securities LLC.
 - "Repository" shall mean each National Repository and each State Repository.
- "Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

"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 December 31 after the end of the Issuer's fiscal year (which currently ends on June 30), commencing with the report due on December 31, 2006, provide to each Repository, the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent) and the Participating Underwriters 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.

An 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 and other parties to which it was provided.

- SECTION 4. <u>Content of Annual Report</u>. The Issuer's Annual Report, due on and after June 1, 2006, shall contain or include by reference:
- (a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the Issuer prepares audited financial statements 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 of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Bond 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 the information referenced in Section 8(d) below.
- (b) <u>Financial and Operating Data</u>. The Annual Report shall contain or incorporate by reference the following information:
 - (i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;
 - (ii) the balance in each fund under the Bond Indenture as of the September 2 preceding the filing of the Annual Report;
 - (iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;
 - (iv) a table setting forth the estimated assessed value-to-lien ratios for Developed Property as a group and for each owner of Undeveloped Property based upon the most recent Special Tax levy preceding the date of the Annual Report, the most recent assessed values of the property and the principal amount of the Bonds and any other land secured debt allocable to parcels within the District:
 - (v) a table including a list of all taxpayers within the District who own property in the District upon which 5% or more of the total Special Taxes for the current fiscal year have been levied, including the percentage of Special Taxes payable by each taxpayer, and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;
 - (vi) any event or action known to the Issuer which reduces the number of residential units permitted to be constructed within the District or which results in a moratorium on future building within the District;
 - (vii) a table setting forth for the five most recent fiscal years in which Special Taxes were levied, the amount of Special Taxes levied in each fiscal year and the percentage delinquent as of June 30 of such fiscal year and as of the October 1 preceding the date of the Annual Report, and a description of the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;
 - (viii) the date of issuance and the principal amount of any Parity Bonds and a copy of any appraisal delivered in connection with such issuance; and

- (ix) any information not already included under (i) through (viii) above that the Issuer is required to file in its annual report to the California Debt and Investment 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:
 - (i) principal and interest payment delinquencies;
 - (ii) an event of default under the Bond Indenture other than as described in (i) above;
 - (iii) unscheduled draws on the Reserve Account reflecting financial difficulties;
 - (iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;
 - (v) 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;
 - (vi) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
 - (vii) modifications to the rights of Bond Owners;
 - (viii) unscheduled redemption of any Bond;
 - (ix) defeasances;
 - (x) any release, substitution, or sale of property securing repayment of the Bonds; and
 - (xi) rating changes.
- (b) The Fiscal Agent shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer pursuant to the Bond 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 Bond 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, and with a copy to the participating Underwriters. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond 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. <u>Termination of Reporting Obligation</u>. 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. <u>Dissemination Agent</u>. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this 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 Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer and the Fiscal Agent (if the Fiscal Agent is other than the Dissemination 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: (i) 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; (ii) 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; (iii) 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 (ii) above; (iv) 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 (v) 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 Bond Indenture for amendments to the Bond Indenture with the consent of the Owners of the Bonds, provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (iv) have been satisfied.
- (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 if 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. <u>Default</u>. 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 Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. <u>Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent.</u> Article VII of the Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture and the Dissemination Agent and the Fiscal Agent shall be entitled to the same protections, limitations from liability and indemnification 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. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters 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. <u>Notices</u>. Notices required by this Disclosure Agreement should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: Capistrano Unified School District

32972 Calle Perfecto

San Juan Capistrano, California 92675

Attention: Deputy Superintendent, Administration

Dissemination Agent: U.S. Bank National Association

633 West Fifth Street, 24th Floor Los Angeles, California 90071 Attention: Corporate Trust Services

Fiscal Agent: U.S. Bank National Association

633 West Fifth Street, 24th Floor Los Angeles, California 90071 Attention: Corporate Trust Services

SECTION 14. <u>Counterparts</u>. 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.

COMMUNITY FACILITIES DISTRICT NO. 90-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (TALEGA)

By:	
	NK NATIONAL ASSOCIATION, as Fiscal Agent semination Agent
By:	A desired Office
	Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega)
Name of Bond Issue:	Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds
Date of Issuance:	June, 2006
School District (Talega provided an Annual Rep Disclosure Agreement,	EREBY GIVEN that Community Facilities District No. 90-2 of the Capistrano Unified () (the "District"), located in the City of San Juan Capistrano, California, has not cort with respect to the above-named Bonds as required by Section 3 of the Continuing dated as of June 1, 2006, by and between the District and U.S. Bank National agent and Dissemination Agent. [The District anticipates that the Annual Report will
	U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent
cc: Capistrano Unified	School District

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) San Juan Capistrano, California

Re: \$44,980,000 Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) Series 2006 Special Tax Refunding Bonds

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Capistrano Unified School District (the "School District") taken in connection with the formation of Community Facilities District No. 90-2 of the Capistrano Unified School District (Talega) (the "District") and the authorization and issuance of Series 2006 Special Tax Refunding Bonds issued by the District in the aggregate principal amount of \$44,980,000 (the "Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have assumed the genuineness of all documents and signatures presented to us and we have relied upon certain representations of fact and certifications made by the School District, the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of June 1, 2006 (the "Indenture"), by and between the District and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds mature on the dates and in the amounts set forth in the Indenture. The Bonds are dated their date of delivery and bear interest payable semiannually on each March 1 and September 1, commencing September 1, 2006, at the rates per annum described in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the School District, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the City of San Juan Capistrano, the State of California, or any of its political subdivisions is pledged for the payment thereof.

- The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained therein.
- (3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.
- (4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.
- (5) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.
- (6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (4) above) and is exempt from State of California personal income tax.
- (7) The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5) (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture and the Tax Certificate for the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

The following description of The Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Although the District believes DTC to be a reliable source of information, no representations can be made by the District concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond 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 laws of the State of New York, a Banking organization within the meaning of the laws of the State of New York, 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, as amended. DTC holds securities of its participants ("DTC Participants") and facilitates the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its DTC 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 Book-Entry System is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and for DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC System must be made by or through DTC Participants, which will receive a credit balance in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of a DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase providing certain details of the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Bond Indenture in the event participation in the Book-Entry System is discontinued (see "Discontinuance of DTC Services" below).

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 the 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 DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. DTC Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, Bond certificates are required to be delivered as described in the Bond Indenture. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

The District may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered as described in the Bond Indenture.

Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Redemption notices and all other notices to Bondowners shall be sent only to Cede & Co., as registered owner of the Bonds. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent to vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the Bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made solely to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of monies, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing rules and regulations governing municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Fiscal Agent or the District, subject to any statutory and regulatory requirements as may be in effect from time to time.

The District, the School district, the Underwriter and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered Bondowners under the Bond Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Bond Indenture. The District, the City, the Underwriters and the Fiscal Agent cannot and do not give any assurances that DTC Participants or others will distribute payments of principal of or interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District, the School District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

Discontinuance of DTC Services. In the event that (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) the District determines that DTC shall no longer so act and delivers a written certificate to the Fiscal Agent to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Bond Indenture. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the registration, transfer and payment the Bonds would be governed by the Bond Indenture, as described above.

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APPENDIX F

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation One State Street Plaza, 15th Floor New York, New York 10004 Telephone: (212) 668-0340

Obligor:	Policy Number:
Obligations:	Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligon

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holden" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncarcelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

SEAL SECOND

Secretary

Authorized Representative

anne G. Gill

Authorized Officer of Insurance Trustee



Ambac Assurance Corporation One State Street Plaza, New York, New York 10004 Telephone: (212) 668-0340

Endorsement

Policy for:	Attached to and forming part of Policy No.:
	Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative

Venne G. Gill

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APPENDIX G

INCREMENTAL VALUE REPORT

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CAPISTRANO UNIFIED SCHOOL DISTRICT

COMMUNITY FACILITIES DISTRICTS NO. 90-2 (TALEGA)

INCREMENTAL VALUES FOR RECENTLY SOLD HOMES

(RECENT SALES PRICES SINCE JANUARY 1, 2005 VERSUS ASSESSED VALUES AS OF JANUARY 1, 2005)

\$252,121,455

The term "Incremental Values" refers to the amount by which Recent Sales Prices are higher than the Assessed Values as of January 1, 2005.

Prepared for Capistrano Unified School District

Prepared by Empire Economics, Inc.

Date of Study: March 15, 2006

INTRODUCTION

For homes that have sold during January 1, 2005 through February 2006, their Assessed Values (AVs) as reported by the Assessor's Office, which were established as of January 1, 2005, may be substantially below the recent sales prices (RSPs), since the Assessor's Office has not yet updated the Assessed Values to reflect the recent sales price valuations.

Accordingly, the purpose of this study is to arrive at an estimate of the Incremental Values (IVs) for the residential for-sale properties in CFD No 90-2 that have sold during the January 1, 2005 though February 2006 time period, as compared to their most recently reported Assessed Values (AVs) as of January 1, 2005; the concepts underlying this analysis are as follows:

- ➤ The residential properties that were sold during the January 1, 2005 through February 2006 time period, both new homes as well as resales, have a base year for the Assessor's AVs as of January 1, 2005, and so their AVs typically do not capture their recent sales prices.
- ➤ The statistics compiled on the recent sales prices or RSPs for these homes (first sale as well as resales) and also their AVs include, on the same document, BOTH their AVs as of January 1, 2005 as well as their recent sales prices or RSPs.
- ➤ Thus, the difference between the recent sales prices or RSPs and their respective AVs reflect the amount by which the RSPs are above their AVs; this is referred to as their Incremental Values (IVs).

Therefore, the result of this study will be an estimate of the IVs of the residential for-sale properties in CFD No. 90-2, an estimate of the amount by which their RSPs are above their AVs as of January 1, 2005.

This study focuses upon the Incremental Values for the residential for-sale properties, including single-family detached homes as well as attached condominiums and townhomes, since there is a sufficient amount of resale activity for these product types. By comparison, apartments and commercial properties are excluded from this study since there is not a sufficient amount of resale activity to estimate their Incremental Values.

SECTION I

NUMBER OF NEW/EXISTING RESIDENTIAL HOMES SOLD DURING JANUARY 1, 2005 THROUGH FEBRUARY 2006

Empire Economics (Empire) identified the residential single-family detached and also attached townhomes/condominiums properties that were sold, including first time sales as well as resales, during the January 1, 2005 through February 2006 time period through a systematic analysis of the following factors:

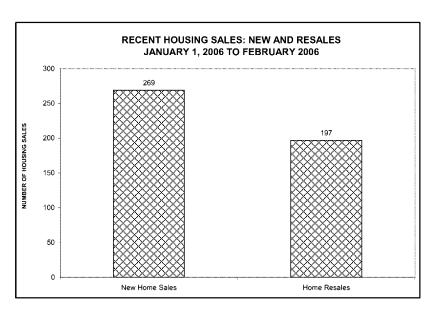
- Empire obtained the tract numbers for the residential development within CFD No. 90-2 from the Special Tax Administrator, David Taussig & Associates See Appendix A.
- Next, using these tract numbers, Empire searched the Assessor Files to identify the homes that sold during the January 1, 2005 through February 2006 time period, and the results were as follows:
 - New homes sales, those which represent a transaction between a builder a households, amounted to 269 sales.
 - Resales of existing homes, those which represent a transaction between two parties, neither of which is a builder, amounted to 197 sales.

So, during the January 1, 2005 through February 2006 time period, there were a total of 466 homes sales.

Note # 1: Empire excluded 11 sales of existing homes, since, although a sale was reported to occur, the sales price was not provided, and so these are not considered further herein.

Note # 2: Empire did not include the tracts in the Planned Community of Talega which have senior or age-restricted housing, since these were purposefully excluded from the CUSD CFD No. 90-2; however, there were only 15 such sales during the designated time period.

Please refer to Appendix A for additional information on the tracts in CFD No. 90-2, along with their characteristics.



SECTION II

ESTIMATION OF THE INCREMENTAL VALUES FOR RECENT HOUSING SALES

The next step is to estimate the Incremental Values (IVs) by systematically comparing the recent sales prices (RSPs) to the January 1, 2005 Assessed Values (AV) for each of the sales that occurred during the January 1, 2005 through February 2006 time period.

Specifically, for each of the sales that occurred during this time period, there is information available on BOTH their AVs as of January 1, 2005 as well as their recent sales prices or RSPs. Thus, the difference between the recent sales prices (RSPs) and their AVs reflect the amount by which the RSPs are above their AVs, or their Incremental Values (IVs).

These Incremental Values are regarded as being the primary determinant of the forthcoming increase in the new updated AVs for these properties, since the Assessor's Office bases the new AV upon the most recent sales price (RSP) for the property.

With regards to all of the 466 housing sales that occurred during January 1, 2005 to February 2006, the RSPs and AVs are as follows:

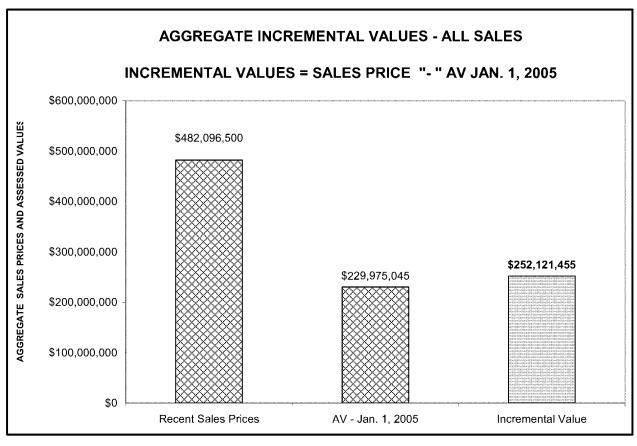
- ➤ The RSPs for these homes amounted to \$482,096,500, in the aggregate, or some \$1,034,542 per home, on the average.
- ▶ By comparison, their AVs as of January 1, 2005 amounted to some \$229,975,045, in the aggregate, or some \$493,509 per home, on the average.
- ➤ Therefore, the Incremental Value, the difference between the RSP and the AV, amounts to some \$252,121,455, in the aggregate, or some \$541,033 per home, on the average.

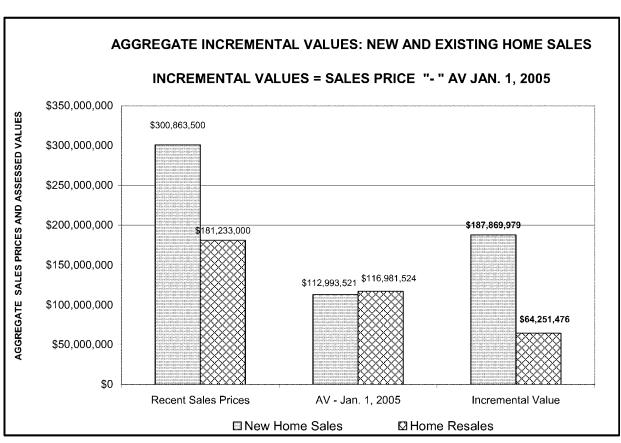
Furthermore, with regards to the Incremental Value for new homes sales as compared to resales, these are as follows:

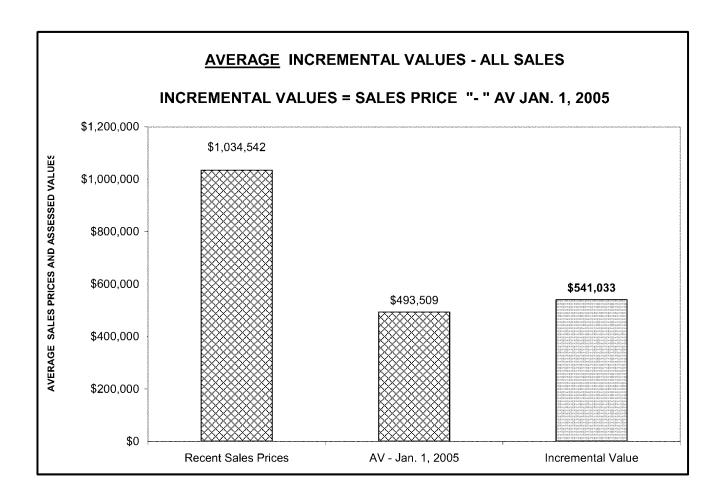
- For the 269 new home sales, from a builder to household, the Incremental Value amounted to some \$187,869,979, in the aggregate, or some \$698,401 per home, on the average.
- For the 197 existing home sales, from a household to another household, the incremental value amounted to some \$64,251,476, in the aggregate, or some \$326,150 per home, on the average.

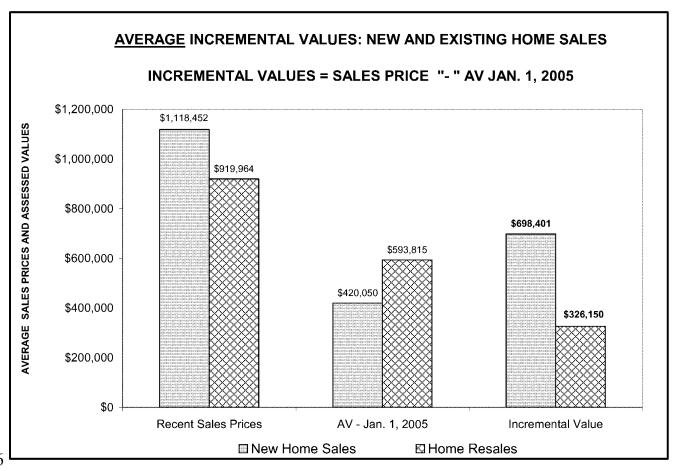
So, the average Incremental Value for new homes was some 114% (more than double) than the average for Incremental Value for existing homes. This can be attributed to the prices for the sales of new homes being much higher than the prior Assessed Value due to the completion of the home. By comparison, the Incremental Value for the existing homes is driven primarily by the market change in housing prices, from the prior sale to the most recent sale.

Please see Appendix B for the Property Information Form and Appendix C for the Recent Housing Sales.









SECTION III

CONCLUSIONS ON INCREMENTAL VALUES FOR CFD NO. 90-2 (TALEGA)

Therefore, based upon a comparison of the recent sales prices for the new and existing homes that have sold during January 1, 2006 through February 2006, their Incremental Values, the amount by which the Recent Sales Prices are above the Assessed Values set-forth by the Assessor's Office as of January 1, 2005 are as follows:

Overall Total Incremental Assessed Value: \$252,121,455

New Residential Properties: \$187,869,979

(Average of \$698,401, for 269 sales)

Existing Residential Properties: \$64,251,476

(Average of \$326,150, for 197 sales)

These Incremental Values are regarded as being bona fide indicators of the amount by which the Assessed Values for the properties that sold during January 1, 2005 to February 2006 will increase, when the Assessor's Office updates their respective Assessed Values, since the Assessor will utilize the most recent sales prices.

ASSUMPTIONS AND LIMITING CONDITIONS

The Assessed Value Study for CFD No. 90-2 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property

No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the Mello-Roos Districts forms the basis for identifying the boundaries of CFD No. 90-2 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report.

Property Boundaries

No survey or engineering analysis of CFD No. 90-2 property has been made by Empire Economics (Empire); the District Engineer's report utilized for the Mello-Roos Bond is deemed to be reliable. Empire assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the Assessed Value, excepting those items which were specifically mentioned in the report.

Accuracy of Information from Others

In preparing this report, Empire was required to rely on information furnished by other individuals or found in previously existing records and/or documents, such as the Orange County Assessor's Office. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by Empire for the accuracy of such information and Empire assumes no responsibility for information relied upon and later found to have been inaccurate. Empire reserves the right to make such adjustments to the Assessed Values set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Date of Study

The date to which the Assessed Values expressed in this report apply as set forth in the study. Furthermore, the dollar amount of any Assessed Value was based upon the purchasing power of the American dollar existing on that date.

Right of Publication of Report

The Capistrano Unified School District may reproduce this report as desired, including for the forthcoming Bond Issue Refunding. Otherwise, possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of Empire, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Earthquakes and Seismic Hazards

The property which is the subject of this report is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to Empire concerning the geologic and/or seismic condition of the subject property. Empire assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

Testimony or Court Attendance

Testimony or attendance in court or at any other hearing is not required by reason of rendering this report, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for Empire's time to prepare for and attend any such hearing.

Liability of Empire

The liability of Empire for this report, is limited to the client only and to the fee actually received by Empire. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. Empire is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property--physical, financial, and/or legal.

Presence and Impact of Hazardous Material

Unless otherwise stated in the report, Empire did not become aware of the presence of any hazardous material or substance during Empire's general inspection of the subject property. However, Empire is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the Assessed Value of the subject property. The evaluation in this report is predicated on the assumption that no such material or substance is present on or in the subject property or in such proximity thereto that it would cause a change in the Assessed Value analysis. Empire assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes that subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Structural Deficiencies of Improvements

Empire has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, Empire assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to Empire. Further, Empire is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to Empire at the time of the inspection.

Presence of Asbestos

Empire is not aware of the existence of asbestos in any existing improvements on the subject property. However, Empire is not trained to discover the presence of asbestos and assumes no responsibility should asbestos be found in or at the subject property. For the purposes of this report, Empire assumes the subject property is free of asbestos and the subject property meets all federal, state and local laws regarding asbestos abatement.

APPENDIX A

TRACTS WITHIN CFD NO. 90-2 AND THEIR CHARACTERISTICS

	A ##**
Tract	Village
13683	Monterey
13684	Pacifica
13686	San Rafael
13878	Carmel
13880	Pacifica Summit
13894	Trinidad
13935	Vittoria
14224	Cantabria/Montellano
14226	Miraleste
15756	Terra Linda
15763	Town Center
15798	Seaside
15799	Solana
15868	Vizcaya
15953	Farralon Ridge
15954	Farralon Ridge/Miraleste
15955	Cantabria/Montellano
16215	Verano
16216	Amalfi
16252	Mirador
16330	Allasio
16336	Carillon
	Escala
16365	
16366	San Lucar
16368	Catania
16369	Catania
16370	Careyes
16413	Sansol
16517	Cazadero
16519	Vittoria
16546	Bella Vista
16547	NA
16569	Cazadero
16570	Ravenna
16614	Lucia
16615	Stella Mare
16616	Portomarin
16629	Caprizi
16630	Alta
16631	Sabella
16795	Alora
Tracts E	xcluded: Projects for Seniors
15921	Waterleaf - Senior
15967	Seagarden - Senior
10001	Ocagarach - Ochlor

APPENDIX B

PROPERTY INFORMATION FORM WITH RELEVANT INFORMATION

PROPERTY INFORMATION

13)	Property	61 VIA ARMIL	.LA , SA	N CLEMENT	E CA 926	73-7204 R086		
APN:	708-034	-24		Card#:			Use:	SFR
County:	ORANG	E, CA		Prop Tax:	\$3,951	.30	Total Value:	\$268,993
MapPg/Grid:		Old Map:		Tax Year:	2005	Deling:	Land Value:	\$268,993
Census:	421.11	Tract #: 16	519	Tax Area:	10054		Imprv Value:	
High School:	CAPIST	RANO UNIF		Elem School			Taxable Val:	\$268,993
Comm Coll:	SADDLE	EBACK		Exemptions:			Assd Year:	2005
Subdivision:							% Improved:	
Owner:	ERLAND	MARK J & CAR	LA D				Phone:	
							Owner Vest:	HW / /JT
Mail:	61 VIA A	RMILLA; SAN CI	LEMENT	E CA 92673	7204 R08	16		
Owner Transfe		Dt: Dt	Price:		Doc#:	***************************************	Type:	
SALE & FIN	VANCE II	NFORMATION					IMPROVEN	<u>MENTS</u>
		LAST SALE			IOR SAL	Poor Poor	Bldg/Liv Area	
Recording/Sal			11/09/20	005			Gross Area:	
Sale Price/Typ	pe:		FULL				Ground Fir	
Document #:		984045					Bsmnt Area: \$/SqFt:	
Deed Type		GRANT DEED					Yrbtt/Eff:	
1st Mtg Amt/T	• •		CONV				# Stories	
1st Mtg Rt/Typ		5.25 / ADJ	1:	30			Rooms:	
1st Mtg Lende	er:						Bedrooms:	
2nd Mtg Amt/1	Гуре:						Full/Haif Bath	
2nd Mtg Rt/Ty	* '	/	1				Ttl Baths/Fixt:	
Title Company		FIRST AMERIC	AN TITL	E			Fireplace.	
Seller		STANDARD PA	CIFIC C	ORP			Pool: Porch Type.	
New Construc	tion:	Y					Patio Type:	
Other Last Sal	le Info =	# Parcels:	Type	2:		Pend:	Construct	
SITE INFOR	RMATIO	И	***************************************				Foundation:	
# Res. Units.	*******************************	 County Use:	1	į	Acres:		Ext Wall:	
# Comm Units	i:	Zoning:	•		Lot Area:		Roof Shape: Roof Type:	
# Buildings:		Flood Panel:			Lot Width		Roof Mati:	
Bldg Class:		Panel Date:			Lot Depth	:	Floor Type:	
Parking Soft.		Flood Zone:		1	Usable Lo	xt:	Floor Cover:	
Park Spaces:		Sewer Type:					Heat Type:	
Garage Cap#:		Water Type:					Heat Fuel:	
Park Type:							Air Cond:	
Other Impvs:							Quality: Condition:	
Legal Blk/Bldg	3:		Site Ir	fluence:			Style:	
Legal Lot/Unit			Amen	ties:			Equipment:	
Legal: NTR		T 24		•			• •	
		* *						

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Other Rms:

APPENDIX C RECENT SALES OF NEW AND EXITING HOMES ALONG WITH THEIR CHARACTERISTICS

11. 1. 1. 1. 1. 1. 1. 1	Record #	APN	Hous	House # House Street	Tract	AV Total	Sales Price	Incremental Value	Sale-Date	AV- Land	AV-Improvement	Seller's Name	П
Thirties The Valency The							N N	EW HOME SALES					Т
Third Principle	H		\coprod										П
71 1975 19	113	701-301-50	17	Ī	16547	\$248.102	\$925.500	\$677.398	03/14/05	\$3.094	\$245.008	STANDARD PACIFIC CORP	Т
17.552-74 2. CORTY UNRIGORAL HIGHES SERVICES STORES ST	114	701-301-53	11	Ť	16547	\$263,296	\$929,000	\$665,704	01/10/05	\$3,093	\$260,203	STANDARD PACIFIC CORP	
77.552.70	115	701-352-04	9		16413	\$599,031	\$1,078,500	\$479,469	03/10/05	\$190,584	\$408,447	STANDARD PACIFIC CORP	Π
17.153.20.0 10 CONTEL UNIDONO, 14.11 15.17.00.0	116	701-352-07	12		16413	\$602,231	\$1,104,500	\$502,269	02/18/05	\$190,584	\$411,647	STANDARD PACIFIC CORP	
17.5452-01	117	701-352-09	16		16413	\$604,031	\$1,206,000	\$601,969	05/11/05	\$190,584	\$413,447	STANDARD PACIFIC CORP	П
TOTASSESSION STATEMENT OF THE STAT	18	701-352-10	18	T	16413	\$577,642	\$1,199,500	\$621,858	03/15/05	\$190,584	\$387,058	STANDARD PACIFIC CORP	Т
TOTASSESSION STATEMENTS 1 CONTENTION STATEMENT	19	701-352-11	20	T	16413	\$599,031	\$1,188,000	\$588,969	07/25/05	\$190,584	\$408,447	STANDARD PACIFIC CORP	T
Min. Style	24	701-352-13	17	T	16413	\$573.107	\$931,000	\$357,893	09/26/05	\$190,384	\$382,522	STANDARD PACIFIC CORP	Т
701-583-12 2.5 CALLE SALTAMONTES 1647.3 SSCS-200 SECTION GOTOTOR SSTG-200 SSTG-100 SSTG-200 SSTG-100 SSTG-200 SSTG-100 SSTG-200 SSTG-100 SSTG-200 SSTG-100 SSTG-200	26	701-353-10	19	T	16413	\$576.307	\$929,500	\$353.193	03/15/05	\$190,585	\$385.722	STANDARD PACIFIC CORP	Т
M11-355-14 25 CALLE SALTAMONTES 1840-1500 SHOLTON 518-0320	27	701-353-12	23	T	16413	\$576,907	\$928,500	\$351,593	03/08/05	\$190,585	\$386,322	STANDARD PACIFIC CORP	Т
70.1485-14 27. CALLE BALTAMONTES 164173 \$52.2000 \$52.806.00 \$50.000 \$50	28	701-353-13	25		16413	\$585,396	\$986,500	\$401,104	03/31/05	\$190,585	\$394,811	STANDARD PACIFIC CORP	I
70.14351 6 20 CALLE BALLAMONTES 16412 1 569.7149 510.12000 542.841 04/2000 510.0200 510.0200 70.14351 6 3.90 CALLE BALLAMONTES 16413 58074.00 510.0200 540.0400 510.0200 510	29	701-353-14	27		16413	\$576,307	\$922,000	\$345,693	04/11/05	\$190,585	\$385,722	STANDARD PACIFIC CORP	
7771-352-16 77 78	30	701-353-15	29	Ш	16413	\$587,159	\$1,012,000	\$424,841	04/26/05	\$190,585	\$396,574	STANDARD PACIFIC CORP	П
770 1358-17 77 1358-17 17 10 CALLE CANTELLA MATORITES 1641-13 5571-370 5571-370 5670 1360 519 1006 519 506 552 50 770 1358-17 18 20 CALLE SALL MATORITES 1641-13 557-370 5570 140 517,240.00 5570 140 517,240.00 5570 140 519,0506	31	701-353-16	31	Н	16413	\$596,285	\$1,041,000	\$444,715	08/02/05	\$190,585	\$405,700	STANDARD PACIFIC CORP	П
Tricks 20	332	701-353-17	8		16413	\$573,107	\$974,500	\$401,393	03/10/05	\$190,585	\$382,522	STANDARD PACIFIC CORP	Т
This No. 1	3 5	701-353-10	27		16/13	\$1,1,31 \$587.067	\$1,142,000	\$570,001	03/02/03	\$190,366	\$207.333	STANDARD PACIFIC CORP	T
71 SAS2-22 7 CORPER AGEINA 164-13 \$190.085 \$10,000	35	701-353-20	24		16413	\$623.064	\$1.351.000	\$727.936	05/04/05	\$190.586	\$432.478	STANDARD PACIFIC CORP	Τ
707-353-22 5 CONTIL ABELA 16413 \$190,250 \$10,000 <	36	701-353-21		1	16413	\$190,585	\$1,009,000	\$818,415	05/20/05	\$190,585	0\$	STANDARD PACIFIC CORP	Τ
701-352-23 5 OFFICE MELIA 16413 5878-366 1 St70-350 5 1 CH-140-56 510-568 5394,811 5 701-352-23 6 OFFIT MELIA 16413 58613-366 1 S400,650 5440,782 00170-6 510-568 5394,811 3594,811 701-352-24 1 COLLE CANELLA 16222 5862,386 1,100-500 5440,786 510,586 544,936 544,112 701-352-04 71 CALLE CANELLA 16222 5862,386 51,100,500 544,776 60,510-6 540,306	37	701-353-22	2		16413	\$190,585	\$937,500	\$746,915	04/19/05	\$190,585	\$0	STANDARD PACIFIC CORP	П
707-352-27 6 ONTE ABELA 16413 \$865,366 51,000 MORTOR \$420,004 \$10,406 \$10,406 \$10,406 \$10,406 \$10,406 \$10,406 \$10,406 \$10,000 \$10,700 \$10,700 \$10,000 </td <td>38</td> <td>701-353-23</td> <td>3</td> <td>Ī</td> <td>16413</td> <td>\$578,251</td> <td>\$1,102,500</td> <td>\$524,249</td> <td>04/20/05</td> <td>\$190,585</td> <td>\$387,666</td> <td>STANDARD PACIFIC CORP</td> <td>П</td>	38	701-353-23	3	Ī	16413	\$578,251	\$1,102,500	\$524,249	04/20/05	\$190,585	\$387,666	STANDARD PACIFIC CORP	П
70.1-382-04 8 OLORITORAL 19413 \$8.001 (000 \$4.44,074 \$10,010 \$10,010 70.1-382-04 17 CALLE GAMELIA 1625 \$562,284 \$1,007,105 \$10,007	£ 5	701-353-27	9 0	T	16413	\$585,396	\$1,006,000	\$420,604	04/14/05	\$190,585	\$394,811	STANDARD PACIFIC CORP	Т
707.352.04 71 CALLE CANELLA 16222 555.035.04 51.056.16 51.	3 5	701-353-28	7 8	T	16252	\$557,708	\$1,051,500	\$449,792	05/31/05	\$190,585	\$411,123	MILIAM YON HOMES INC	Т
701-382-06 21 CALLE CAMELLA 16222 5540-06 \$801-82-2 \$104-30-06 \$100-30-06	2	701-362-04	1	T	16252	\$552,834	\$1,679,000	\$1.126.166	04/07/05	\$303,528	\$249,306	WILLIAM LYON HOMES INC	Τ
707-262-04 23 CALLE CALLIERA 16252 \$548,626 \$1,046,500 \$1,022,00 \$10,220,00 \$202,200 \$204,509 \$245,009 707-362-10 27 CALLE CALLITERIA 16252 \$1,086,000 \$1,046,000 \$1,046,000 \$10,000 \$203,022 \$245,009 \$245,009 707-362-10 28 CALLE CAULITERIA 16252 \$1,056,000 \$1,050 \$10,000 \$10,000 \$203,000	43	701-362-06	21	П	16252	\$501,678	\$1,303,500	\$801,822	06/30/05	\$303,528	\$198,150	WILLIAM LYON HOMES INC	П
701-362-10 28 CALLE CAULTERIA 16222 \$5-48,68 \$1,046,314 06/3006 \$500,528 \$243,299 701-362-10 28 CALLE GAULTERIA 16222 \$76,6827 \$1,206,000 \$41,617 \$60,206 \$500,528 \$432,299 701-362-12 24 CALLE GAULTERIA 16222 \$76,6827 \$1,206,000 \$343,817 \$60,202 \$350,528 \$433,299 701-362-13 22 CALLE GAULTERIA 16222 \$786,827 \$1,140,000 \$364,499 \$500,528 \$404,299 701-362-13 20 CALLE GAULTERIA 16222 \$896,017 \$1,140,000 \$364,499 \$404,100 \$500,528 \$404,499 701-362-18 16 CALLE GAULTERIA 16222 \$896,017 \$1,240,000 \$364,693 \$404,100 \$500,528 \$404,499 701-362-18 16 CALLE GAULTERIA 16222 \$896,017 \$1,240,000 \$364,693 \$404,100 \$404,100 \$404,100 \$404,100 \$404,100 \$404,100 \$404,100 \$404,100 \$	44	701-362-07	23		16252	\$548,626	\$1,404,500	\$855,874	02/28/05	\$303,528	\$245,098	WILLIAM LYON HOMES INC	I
TOTI-322-17 2.6 CALLE CAULITERIA 18.22 \$17.68.00 \$1.60.00 \$2.26.61 \$1.70.90 \$3.00.208 \$3	45	701-362-09	27	T	16252	\$548,626	\$1,598,000	\$1,049,374	06/30/05	\$303,528	\$245,098	WILLIAM LYON HOMES INC	Т
7(7):382-13 2.2 CALLE GAULTERIA 16252 \$1,121,000 \$364,173 041105 \$303,528 \$483,299 7(7):382-14 2.0 CALLE GAULTERIA 16252 \$898,017 \$1,220,000 \$384,193 041105 \$303,528 \$548,1299 7(7):382-14 2.0 CALLE GAULTERIA 16252 \$898,017 \$1,220,000 \$366,883 0411005 \$303,528 \$577,821 7(7):382-16 1.6 CALLE GAULTERIA 16252 \$898,017 \$1,245,000 \$366,883 0411005 \$303,528 \$577,821 7(7):382-16 1.6 CALLE GAULTERIA 16252 \$888,049 \$1,220,000 \$366,883 0411005 \$303,528 \$577,821 7(7):382-21 1.1 CALLE GAULTERIA 16252 \$881,499 \$1,220,000 \$366,883 0411005 \$303,528 \$577,821 7(7):382-21 1.1 CALLE GAULTERIA 16252 \$881,499 \$1,220,000 \$369,473 0411005 \$303,528 \$577,821 7(7):382-29 2.1 CALLE GAULTERIA	47 4	701-362-10	270	Ť	16252	\$875.122	\$1,205,000	\$410,173	02/16/05	\$303,526	\$571.594	WILLIAM LTON HOMES INC	Т
701-382-14 20 CALLE GAULTERIA 16252 \$889.077 \$1220,000 \$321,983 04/11/20/6 \$509,528 \$5594,489 701-382-15 18 CALLE GAULTERIA 16222 \$881,349 \$1,220,000 \$366,933 04/11006 \$509,528 \$577,821 701-382-16 18 CALLE GAULTERIA 16222 \$880,374 \$1,245,000 \$366,933 04/14005 \$309,528 \$577,821 701-382-17 14 CALLE GAULTERIA 16222 \$891,349 \$1,245,000 \$366,831 031,4405 \$509,528 \$577,821 701-382-18 17 CALLE GAULTERIA 16222 \$891,349 \$1,201,000 \$397,401 \$100,000 \$309,528 \$401 701-382-29 17 CALLE GAULTERIA 16222 \$1,300,000 \$397,401 \$100,000 \$309,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528 \$509,528	48	701-362-13	22	Ť	16252	\$786.827	\$1,151,000	\$364,173	04/11/05	\$303,528	\$483,299	WILLIAM LYON HOMES INC	T
701-362-15 18 CALLE GAULI TERIA 18252 \$881,339 \$1.265,000 \$356,185 0/11/206 \$503,528 \$557,7821 701-362-17 14 CALLE GAULI TERIA 16252 \$706,500 \$356,173 0/14/105 \$503,528 \$463,299 701-362-17 14 CALLE GAULI TERIA 16252 \$706,500 \$356,173 0/14/105 \$503,528 \$463,299 701-362-17 14 CALLE GAULI TERIA 16252 \$861,339 \$1,220,500 \$306,378 \$603,528 \$467,81 701-362-20 21 CALLE GAULI TERIA 16252 \$176,000 \$359,652 0/14/106 \$503,528 \$468,000 701-362-28 21 CALLE GAULI TERIA 16252 \$91,569 \$1,460,000 \$1,471,000 \$303,528 \$403,299 701-362-28 21 CALLE GAULI TERIA 16252 \$91,569 \$1,486,000 \$1,447 0 \$401,000 \$503,528 \$403,500 701-362-29 32 VADIVERTIRSE 16252 \$903,528 \$1,486,000 \$1,444	49	701-362-14	20	T	16252	\$898,017	\$1,220,000	\$321,983	04/11/05	\$303,528	\$594,489	WILLIAM LYON HOMES INC	
70.1362-16 11 CALLE GAULTERIA 16222 \$898.077 \$1,450.00 \$366,173 04/15/05 \$303,528 \$464,489 70.1362-17 14 CALLE GAULTERIA 16222 \$81,450.00 \$368,173 0.301/05 \$303,528 \$483,299 70.1362-18 12 CALLE GAULTERIA 16222 \$81,291,500 \$1410,170 \$300,528 \$677,821 70.1362-18 12 CALLE GAULTERIA 16222 \$81,291,500 \$390,622 04/13/05 \$303,528 \$677,821 70.1362-29 21 CALLE GAULTERIA 16222 \$1,350,000 \$391,401 02/11/05 \$303,528 \$608,071 70.1362-29 23 CALLE GAULTERIA 16222 \$91,390 \$1,148,472 04/21/05 \$303,528 \$60 70.1362-29 34 VA DIVERTIRSE 16222 \$303,528 \$1,148,000 \$1,144,172 04/21/05 \$303,528 \$60 70.1362-30 38 VA DIVERTIRSE 16222 \$303,528 \$1,444,72 04/21/05 \$303,528 \$60 <	50	701-362-15	18		16252	\$881,349	\$1,243,000	\$361,651	01/12/05	\$303,528	\$577,821	WILLIAM LYON HOMES INC	П
701-362-17 14 CALLE GAULTERIA 1652-2 \$1,145,000 \$338,173 0.937405 \$303,528 \$342,229 701-362-17 14 CALLE GAULTERIA 1625-2 \$901,339 \$1,292,000 \$390,662 04/1305 \$303,528 \$577,821 701-362-21 14 CALLE GAULTERIA 1625-2 \$901,339 \$1,292,000 \$589,062 04/1305 \$303,528 \$587,810 701-362-26 21 CALLE GAULTERIA 1625-2 \$1,390,000 \$100,2205 \$303,528 \$400,801 701-362-28 23 CALLE GAULTERIA 1625-2 \$303,528 \$1,486,000 \$1124,472 04/1056 \$303,528 \$50.80 701-362-29 36 VIA DIVERTIRSE 1625-2 \$303,528 \$1,486,000 \$1,164,172 04/1056 \$303,528 \$50 701-362-23 40 VIA DIVERTIRSE 1625-2 \$303,528 \$1,248,000 \$1,164,472 04/1056 \$303,528 \$50 701-362-33 40 VIA DIVERTIRSE 1625-2 \$303,528 \$1,164,472	51	701-362-16	16	T	16252	\$898,017	\$1,265,000	\$366,983	04/15/05	\$303,528	\$594,489	WILLIAM LYON HOMES INC	П
701-362-26 1 CALLE GAULTERIA 16222 \$901-339 \$1,201-300 \$300,528 \$400,022 \$501,022 \$501,022 \$500,027 \$500,027	225	701-362-17	17	T	16252	\$786,827	\$1,145,000	\$358,173	03/14/05	\$303,528	\$483,299	WILLIAM LYON HOMES INC	Т
701-362-26 21 CALLE GAULTERIA 16252 \$786,627 \$1,350,000 \$563,173 02/22/05 \$303,528 \$483,299 701-362-26 21 CALLE GAULTERIA 16252 \$911,599 \$1,309,000 \$354,401 02/11/05 \$303,528 \$608,071 701-362-29 34 VADVIERTIRSE 16252 \$303,628 \$1,486,000 \$1,182,472 04/21/05 \$303,528 \$608,071 701-362-30 36 VIA DIVERTIRSE 16252 \$303,628 \$1,184,972 04/21/05 \$303,528 \$0 701-362-30 38 VIA DIVERTIRSE 16252 \$303,628 \$1,184,972 04/05/05 \$303,528 \$0 701-362-31 42 VIA DIVERTIRSE 16252 \$303,528 \$1,184,472 04/06/05 \$303,528 \$0 701-362-35 42 VIA DIVERTIRSE 16252 \$303,528 \$1,184,472 04/06/05 \$303,528 \$504,763 701-362-35 44 VIA DIVERTIRSE 16252 \$303,528 \$1,184,472 04/06/05	55	701-362-10	11		16252	\$901,338	\$1 292 000	\$390,662	04/13/05	\$303,528	\$597.810	WILLIAM LYON HOMES INC	Τ
701-362-36 23 CALLE GAULTERIA 16252 \$911,599 \$1,309,000 \$397,401 02/11/05 \$303,528 \$608,071 701-362-28 34 VIA DIVERTIRSE 16252 \$303,528 \$1,154,972 04/17/05 \$303,528 \$0 701-362-39 38 VIA DIVERTIRSE 16252 \$303,528 \$1,150,572 04/17/05 \$303,528 \$0 701-362-39 38 VIA DIVERTIRSE 16252 \$303,528 \$1,150,472 04/17/05 \$303,528 \$0 \$0 701-362-30 38 VIA DIVERTIRSE 16252 \$303,528 \$1,104,472 04/16/05 \$303,528 \$0 \$0 \$0 \$1,04472 04/16/05 \$303,528 \$0	56	701-362-26	21	İ	16252	\$786,827	\$1,350,000	\$563,173	02/22/05	\$303,528	\$483,299	WILLIAM LYON HOMES INC	
701-362-28 34 VIA DIVERTIRSE 16252 \$303,528 \$1,48,600 \$1,182,472 04/05/06 \$303,528 \$60 701-362-29 38 VIA DIVERTIRSE 16252 \$303,528 \$1,146,972 04/05/06 \$303,528 \$0 701-362-29 38 VIA DIVERTIRSE 16252 \$303,528 \$1,146,972 04/05/06 \$303,528 \$0 701-362-30 38 VIA DIVERTIRSE 16252 \$303,528 \$1,144,72 04/06/06 \$303,528 \$0 701-362-33 44 VIA DIVERTIRSE 16252 \$303,528 \$1,144,72 04/06/06 \$303,528 \$0 701-362-35 48 VIA DIVERTIRSE 16252 \$538,291 \$1,134,72 04/06/06 \$303,528 \$234,763 701-362-35 48 VIA DIVERTIRSE 16252 \$501,678 \$1,244,72 04/06/06 \$303,528 \$234,763 701-362-36 50 VIA DIVERTIRSE 16252 \$501,678 \$1,244,272 04/06/06 \$303,528 \$571,594 <	57	701-362-27	23	П	16252	\$911,599	\$1,309,000	\$397,401	02/11/05	\$303,528	\$608,071	WILLIAM LYON HOMES INC	П
701-362-29 38 VIADIVERTIRSE 16252 \$303,528 \$1,505,500 \$1,105,105 \$300,528 \$50 701-362-29 38 VIADIVERTIRSE 16252 \$303,528 \$1,205,500 \$1,105,972 \$303,528 \$50 701-362-31 40 VIADIVERTIRSE 16252 \$303,528 \$1,368,000 \$1,064,472 05/31/05 \$303,528 \$50 701-362-33 44 VIADIVERTIRSE 16252 \$303,528 \$1,44,472 04/06/05 \$303,528 \$60 701-362-33 48 VIADIVERTIRSE 16252 \$303,528 \$1,44,472 04/06/05 \$303,528 \$234,783 701-362-36 50 VIADIVERTIRSE 16252 \$538,291 \$1,436,200 \$778,209 01/04/05 \$303,528 \$523,478 701-362-36 50 VIADIVERTIRSE 16252 \$501,678 \$1,261,000 \$778,209 01/04/05 \$303,528 \$571,594 701-362-16 50 VIADIVERTIRSE 16252 \$303,528 \$1,261,000 \$1,084,472 01/04/05 \$303,528 \$571,594 701-363-16 51 VIADIVERTIRSE<	28	701-362-28	34		16252	\$303,528	\$1,486,000	\$1,182,472	04/21/05	\$303,528	0\$	WILLIAM LYON HOMES INC	T
701-362-35 40 VIADIVERTINSE 16252 \$303,528 \$1,227,702 \$1,271,702 \$1,271,702 \$1,271,702 \$1,271,702 \$1,023 \$1,271,702 \$1,023 <th< td=""><td>n G</td><td>701 362 30</td><td>5 8</td><td>Ť</td><td>16252</td><td>\$303,320</td><td>\$1,430,500</td><td>\$1,134,972</td><td>04/02/05</td><td>\$303,526</td><td>000</td><td>WILLIAM LYON HOMES INC</td><td>Т</td></th<>	n G	701 362 30	5 8	Ť	16252	\$303,320	\$1,430,500	\$1,134,972	04/02/05	\$303,526	000	WILLIAM LYON HOMES INC	Т
701-362-32 4.2 VIA DIVERTIRSE 16252 \$303,528 \$1,498,000 \$1,194,472 04/06/05 \$303,528 \$0 701-362-32 4.4 VIA DIVERTIRSE 16252 \$303,528 \$1,347,000 \$1,043,472 04/06/05 \$303,528 \$50 701-362-35 4.4 VIA DIVERTIRSE 16252 \$538,291 \$1,240,000 \$778,299 01/04/05 \$303,528 \$234,763 701-362-36 5.0 VIA DIVERTIRSE 16252 \$601,678 \$1,140,000 \$609/05 \$303,528 \$577,594 701-363-14 2.1 VIA DIVERTIRSE 16252 \$873,122 \$1,166,000 \$862,472 06/09/05 \$303,528 \$50 701-363-14 2.1 VIA DIVERTIRSE 16252 \$303,528 \$1,136,000 \$1,043,472 06/09/05 \$303,528 \$50 701-363-16 2.2 VIA DIVERTIRSE 16252 \$303,528 \$1,331,000 \$1,041,472 06/09/05 \$303,528 \$0 701-363-17 2.2 VIA DIVERTIRSE 16252 <t< td=""><td>61</td><td>701-362-31</td><td>164</td><td>Ť</td><td>16252</td><td>\$303.528</td><td>\$1,368,000</td><td>\$1,213,372</td><td>05/31/05</td><td>\$303,528</td><td>0\$</td><td>WILLIAM LYON HOMES INC</td><td>Τ</td></t<>	61	701-362-31	164	Ť	16252	\$303.528	\$1,368,000	\$1,213,372	05/31/05	\$303,528	0\$	WILLIAM LYON HOMES INC	Τ
701-362-35 44 VIA DIVERTIRSE 16252 \$303,528 \$1,347,000 \$1,043,472 04/06/05 \$303,528 \$23,763 701-362-35 48 VIA DIVERTIRSE 16252 \$581,291 \$1,240,000 \$778,299 01/04/05 \$303,528 \$234,763 701-362-36 5.0 VIA DIVERTIRSE 16252 \$871,600 \$1,240,000 \$873,878 06/09/05 \$303,528 \$57,594 701-363-14 2.1 VIA DIVERTIRSE 16252 \$303,528 \$1,166,000 \$862,472 06/09/05 \$303,528 \$50 701-363-14 2.1 VIA DIVERTIRSE 16252 \$303,528 \$1,136,000 \$102,000 \$100,005 \$303,528 \$50 701-363-16 2.2 VIA DIVERTIRSE 16252 \$303,528 \$1,331,000 \$1,027,472 12/13/05 \$303,528 \$0 701-363-16 2.8 VIA DIVERTIRSE 16252 \$303,528 \$1,433,000 \$1,124,472 05/03/05 \$303,528 \$0 701-363-18 2.8 VIA DIVERTIRSE	62	701-362-32	42	Ĺ	16252	\$303,528	\$1,498,000	\$1,194,472	04/06/05	\$303,528	0\$	WILLIAM LYON HOMES INC	
701-362-35 48 VIA DIVERTIRSE 16252 \$558.291 \$1.316.500 \$778.299 01/04/05 \$303.528 \$234.763 701-362-36 50 VIA DIVERTIRSE 16252 \$501,678 \$1,261,000 \$759,322 01/04/05 \$303.528 \$198,160 701-363-14 21 VIA DIVERTIRSE 16252 \$303,528 \$1,166,000 \$862,472 06/09/05 \$303.528 \$60 701-363-14 21 VIA DIVERTIRSE 16252 \$303,528 \$1,166,000 \$1,085,972 07/08/05 \$303,528 \$60 701-363-16 23 VIA DIVERTIRSE 16252 \$303,528 \$1,27,472 07/08/05 \$303,528 \$0 701-363-17 30 VIA DIVERTIRSE 16252 \$303,528 \$1,433,000 \$1,129,472 05/03/05 \$303,528 \$0 701-363-17 30 VIA DIVERTIRSE 16252 \$303,528 \$1,4472 05/03/05 \$303,528 \$0 701-363-18 28 VIA DIVERTIRSE 16252 \$303,528 \$1,447.2	63	701-362-33	44	П	16252	\$303,528	\$1,347,000	\$1,043,472	04/06/05	\$303,528	0\$	WILLIAM LYON HOMES INC	П
701-362-36 50 VIA DIVERTIRSE 16252 \$501678 \$1.261,000 \$759,322 01/04/05 \$303,528 \$198,150 701-363-40 5 CALLE GAULTERIA 16252 \$875,122 \$1.249,000 \$759,372 06/09/05 \$103,528 \$571,594 701-363-14 21 VIA DIVERTIRSE 16252 \$303,528 \$1,249,000 \$10,065,972 07/06/05 \$303,528 \$671,594 701-363-16 23 VIA DIVERTIRSE 16252 \$303,528 \$1,389,500 \$1,085,972 07/06/05 \$303,528 \$0 701-363-16 32 VIA DIVERTIRSE 16252 \$303,528 \$1,331,000 \$1,027,472 06/07/05 \$303,528 \$0 701-363-17 30 VIA DIVERTIRSE 16252 \$303,528 \$1,433,000 \$1,129,472 06/07/05 \$303,528 \$0 701-363-18 28 VIA DIVERTIRSE 16252 \$303,528 \$1,441,472 06/07/05 \$303,528 \$0 701-363-22 20 VIA DIVERTIRSE 16252 \$3	64	701-362-35	48		16252	\$538,291	\$1,316,500	\$778,209	01/04/05	\$303,528	\$234,763	WILLIAM LYON HOMES INC	Т
701-363-VI 27 VALLE SACULTARIA 16252 \$303,528 \$1,434,000 \$306,917 0.01 (1) \$303,528 \$1,1394 PAT (1) PAT (1) \$1,035 PAT (1)	65	701-362-36	35		16252	\$501,678	\$1,261,000	\$759,322	01/04/05	\$303,528	\$198,150	WILLIAM LYON HOMES INC	T
701-363-15 23 VIA DIVERTIRSE 16252 \$303,528 \$1,389,500 \$1,085,972 07/06/05 \$303,528 \$0 701-363-16 32 VIA DIVERTIRSE 16252 \$303,528 \$1,331,000 \$1,129,7472 12/13/05 \$303,528 \$0 701-363-17 30 VIA DIVERTIRSE 16252 \$303,528 \$1,433,000 \$1,129,1472 05/03/05 \$303,528 \$0 701-363-18 28 VIA DIVERTIRSE 16252 \$303,528 \$1,441,472 05/03/05 \$303,528 \$0 701-363-22 20 VIA DIVERTIRSE 16252 \$303,528 \$1,565,500 \$1,251,972 02/07/06 \$303,528 \$0	67	701-363-14	21	Ī	16252	\$303,528	\$1,243,000	\$862,472	90/60/90	\$303,528	\$0.1754	WILLIAM LYON HOMES INC	Т
701-363-16 32 VIA DIVERTIRSE 16252 \$303,528 \$1,331,000 \$1,027,472 12/13/05 \$303,528 \$0 701-363-17 30 VIA DIVERTIRSE 16252 \$303,528 \$1,433,000 \$1,129,472 05/103/05 \$303,528 \$0 701-363-18 28 VIA DIVERTIRSE 16252 \$303,528 \$1,445,000 \$1,441,472 05/103/05 \$303,528 \$0 701-363-22 20 VIA DIVERTIRSE 16252 \$303,528 \$1,565,500 \$1,251,972 02/107/06 \$303,528 \$0	89	701-363-15	23		16252	\$303,528	\$1,389,500	\$1,085,972	02/08/05	\$303,528	\$0	WILLIAM LYON HOMES INC	П
7/01-302-17 37 VIA DIVERTIRSE 16252 \$303,528 \$1,456,500 \$1,1231,472 0500,528 \$5.00 7/01-303-22 20 VIA DIVERTIRSE 16252 \$303,528 \$1,566,500 \$1,251,972 02/07/06 \$303,528 \$\$0	69	701-363-16	8 8	Ť	16252	\$303,528	\$1,331,000	\$1,027,472	12/13/05	\$303,528	0\$	WILLIAM LYON HOMES INC	Т
701-363-22 20 VIA DIVERTIRSE 16252 \$303,528 \$1,555,500 \$1,21,972 02/07/06 \$303,528 \$0	1/0	701-363-17	3,000	T	16252	\$303,528	\$1,433,000	\$1,129,472	05/02/05	\$303,528	04	WILLIAM LYON HOMES INC	Т
	172	701-363-22	20 2		16252	\$303,528	\$1,555,500	\$1,251,972	02/07/06	\$303,528	0\$	WILLIAM LYON HOMES INC	П

	\$422,74	252 \$303,528 252 \$303,528 365 \$422,747 365 \$434,456	16252 16365 16365	+	CORTE LA CEREZA 16365
1	\$421,091	\coprod	16365	16365	13 VIA CERAMICA 16365 3 VIA CERAMICA 16365
Ш	\$433,630	\coprod	16365	VIA CERAMICA 16365	4 VIA CERAMICA 16365
_	\$424,536		16365	16365	6 VIA CERAMICA 16365 8 VIA CERAMICA 16365
₩	\$425,688	\prod	16365	VIA CERAMICA 16365	10 VIA CERAMICA 16365
_	\$421,816	+	16365	16365	VIA CERAMICA 16365 VIA CERAMICA 16365
	\$429,831	H	16365	VIA CERAMICA 16365	16 VIA CERAMICA 16365
	\$421,650	+	16365	16365	18 VIA CERAMICA 16365
	\$383,224	-	16366	VIA ABAJAR 16366	VIA ABAJAR 16366
	\$397,653	Н	16366	VIA ABAJAR 16366	7 VIA ABAJAR 16366
	\$403,784	+	16366 16366	16366 16366	VIA ABAJAR 16366
	\$403,784	-	16366	VIA ABAJAR 16366	4 VIA ABAJAR 16366
H	\$382,426		16366	VIA ABAJAR 16366	VIA ABAJAR 16366
	\$385,256	+	16216	16216	1 VIA MINORCA 16216
1 1	\$385,255		16216		16216
	\$410,221		16216	16216	11 VIA ZAMORA 16216
- 1	\$382,107	4	16216	16216	13 VIA ZAMORA 16216
	\$377.474		16216	16216	15 VIA ZAMORA 16216 16216 1521
	\$115,892	ŀ	16216	16216	19 VIA ZAMORA 16216
-	\$115,892		16216	VIA ZAMORA 16216	VIA ZAMORA 16216
_	\$416,605	+	16216	16216	27 VIA ZAMORA 16216
_	\$385 255	+	16216	VIA ZAMORA 16216	VIA ZAMORA 16216
-	\$382,620	H	16216	VIA ZAMORA 16216	16 VIA ZAMORA 16216
	\$1,195,473	-	16370	CALLE CAREYES 16370	9 CALLE CAREYES 16370
	\$1,168,519	+	16370	+	CALLE CAREYES 16370
	\$1,147,257		16370	CALLE CAREYES 16370	29 CALLE CAREYES 16370
	\$959,535	+	16370	CALLE SONADOR 16370	11 CALLE SONADOR 16370 15 CALLE SONADOP 16370
	\$1.027.060	+	16370	16370	17 CALLE SONADOR 16370
	\$1,007,735		16370	CALLE SONADOR 16370	19 CALLE SONADOR 16370
	\$1,011,197	370 \$1,011,197	16370	CALLE SONADOR 16370	21 CALLE SONADOR 16370
	\$1,027,650	+	16370	CALLE SONADOR 16370	33 CALLE SONADOR 16370
	\$1,220,36	+	16370	16370	CALLE CAREYES 16370
$ _{-} $	\$1,259,309	Н	16370	CALLE CAREYES 16370	39 CALLE CAREYES 16370
	\$1,273,499	+	16370	CALLE CAREYES 16370	43 CALLE CAREYES 16370
-	\$1,219,520	5	16370 \$1	CALLE CAREYES 16370 \$1	47 CALLE CAREYES 16370 \$1
1	\$578,000	+	16370	CALLE CARETES 18370	53 CALLE CARETES 18370 53 CALLE CAREYES 16370
ı	\$578,000	L	16370	CALLE CAREYES 16370	CALLE CAREYES 16370
П	\$578,000		16370	CALLE CAREYES 16370	57 CALLE CAREYES 16370
	\$578,000	1	16370	CALLE CAREYES 16370	59 CALLE CAREYES 16370
- 1	\$578,000	\downarrow	16370	CALLE CAREYES 16370	61 CALLE CAREYES 16370
	\$578,000	+	16370	16370	65 CALLE CAREYES 16370
	\$578,000	+	16370	CALLE CAREYES 16370	CALLE CAREYES 16370
	\$578,000	-	16370	CALLE CAREYES 16370	69 CALLE CAREYES 16370
	\$566.811	-	16318	VIA SOBIA	13 VIA SOBIA 16368
	\$568.361		16368	VIA SORIA 16368	15 VIA SORIA 16368
	\$518,710	L	16368	VIA SORIA 16368	19 VIA SORIA 16368
	\$561,573	L	16368	VIA SORIA 16368	21 VIA SORIA 16368
	\$290,820		16368	16368	29 VIA SORIA 16368
L	\$290,820		16368	VIA SORIA 16368	31 VIA SORIA 16368
	\$290,820		16368	16368	35 VIA SORIA 16368
	\$290,820	+	16368	VIA SORIA 16368	37 VIA SORIA 16368
	\$290,82	-	16368	VIA SORIA 16368	39 VIA SORIA 16368
4	\$290,820		16368	IVIA SORIA 16368	36 IVIA SOBIA

STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	STANDARD PACIFIC CORP	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES	SHEA HOMES
\$0	\$0	\$0	0\$	000	\$268.120	\$255,954	\$274,259	\$253,700	\$207 278	\$383 D31	\$0000	\$0	\$0	0\$	\$0	2	00	05	\$0\$	\$0	\$0	\$0	\$0	2	2	0.00	9 6	9 6	0\$	\$0\$	\$0	\$0	\$0	\$0	0,5	Q Q	0\$	\$377,198	\$360,463	\$0	\$0	\$0	0	04	0\$	\$0	\$0	\$0	80	Q 6	000	9	09	\$0	\$0	\$0	\$0	Q Q	\$193.021	\$245,358	\$236,569
\$290,820	\$290,820	\$290,820	\$290,820	\$290,820	\$290,820	\$290,820	\$290,820	\$290,820	\$290,920	\$290,819	\$268,994	\$268,994	\$268,994	\$268,994	\$268,994	\$268,994	\$200,994	\$268,994	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$200,993	\$200,993	\$268,993	\$268 993	\$268 993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268 993	\$268,993	\$268,993	\$268,993	\$324,852	\$324,852	\$324,852	\$324,852	\$324,032	\$324.852	\$324,852	\$324,852	\$324,852	\$324,852	\$147,566	\$464,673	\$484.873	\$484.873	\$484,873	\$484,873	\$484,873	\$484,873	\$484,873	\$464,673	\$484,873	\$484,873
06/30/05	10/25/05	10/13/05	08/04/05	10/04/05	07/27/05	12/14/05	04/29/05	08/04/05	03/13/03	02/03/03	11/17/05	11/17/05	11/17/05	11/17/05	12/17/05	11/1//05	08/30/05	08/24/05	07/19/05	08/26/05	08/26/05	07/19/05	08/26/05	11/08/02	08/20/05	07/19/05	07/19/05	08/26/05	11/17/05	10/21/05	11/08/05	10/18/05	07/19/05	07/19/05	07/19/05	07/19/05	08/22/05	-	11/23/05	10/04/05	10/03/05	10/04/05	10/04/05	10/00/05	10/05/05	10/27/05	10/07/05	10/04/05	10/04/05	12/12/05	10/06/05	09/21/05	09/21/05	10/06/05	08/12/05	08/11/05	08/11/05	08/11/05	07/20/03	07/19/05	07/19/05
\$1,055,680	\$888,680	\$883,680	\$771,180	\$865,680	\$544.060	\$503,226	\$633,421	\$532,480	\$512,921 \$512,003	\$312,903 \$429.650	\$904.506	\$1,129,506	\$891,506	\$890,006	\$903,506	\$698,506	\$706,006	\$753.506	\$738,007	\$777,507	\$761,507	\$706,007	\$752,507	\$304,007	\$853,507	\$1,021,007	\$624,507 \$639,507	\$832,007	\$775.007	\$875,007	\$692,007	\$712,507	\$610,507	\$669,507	\$772,007	\$713.507	\$616.007	\$703,809	\$622,544	\$1,045,148	\$1,037,648	\$847,648	\$899,148	\$7.07,040	\$767.148	\$863,648	\$697,148	\$796,648	\$809,648	\$862,434	\$900,027	\$983.127	\$847.627	\$889,627	\$1,022,627	\$695,127	\$723,627	\$677,627	\$521,127	\$551,269	\$508,558
\$1,346,500	\$1,179,500	\$1,174,500	\$1,062,000	\$977,500	\$1,103,000	\$1,050,000	\$1,198,500	\$1,077,000	\$1,136,000	\$1,139,000	\$1,173,500	\$1,398,500	\$1,160,500	\$1,159,000	\$1,172,500	\$467,500	\$1,046,000	\$1,022,500	\$1,007,000	\$1,046,500	\$1,030,500	\$975,000	\$1,021,500	\$1,173,000	\$1,122,500	\$1,290,000	\$908 500	\$1 101 000	\$1,044,000	\$1,144,000	\$961,000	\$981,500	\$879,500	\$938,500	\$1,041,000	\$982.500	\$885.000	\$1,350,000	\$1,252,000	\$1,370,000	\$1,362,500	\$1,172,500	\$1,224,000	\$1,062,500	\$1,092,000	\$1,188,500	\$1,022,000	\$1,121,500	\$1,134,500	\$1,004,000	\$1,463,500	\$1,322,000	\$1,332,500	\$1,374,500	\$1,507,500	\$1,180,000	\$1,208,500	\$1,162,500	\$1,242,000	\$1,281,500	\$1,230,000
\$290,820	\$290,820	\$290,820	\$290,820	\$290,820	\$558.940	\$546,774	\$565,079	\$544,520	\$363,073	\$673.850	\$268,994	\$268,994	\$268,994	\$268,994	\$268,994	\$268,994	\$269,994	\$268.994	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$208,993	\$268,993	\$268,993	\$268 993	\$268 993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268,993	\$268.993	\$646,191	\$629,456	\$324,852	\$324,852	\$324,852	\$324,852	\$324,632	\$324,852	\$324,852	\$324,852	\$324,852	\$324,852	\$141,566	\$404,073	\$484.873	\$484,873	\$484,873	\$484,873	\$484,873	\$484,873	\$484,873	\$404,073	\$730,231	\$721,442
16368	16368	16368	16368	16368	16368	16368	16368	16368	16368	16368	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	10019	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16519	16369	16369	16369	16369	16369	16369	16369	16369	16369	16369	1651/	16569	16569	16569	16569	16569	16569	16569	16569	16569	16569	16569
		-				20 VIA SORIA			25 VIA FONTIBRE	31 VIA GABONA	Ť	l.		16 VIA ELDA	14 VIA ELDA		43 VIA ARMILLA			51 VIA ARMILLA		Ť			63 VIA ARMILLA				1		l	54 VIA ARMILLA		- 1		13 VIA GADOR		Ĺ		11 VIA JACOBEA	21 VIA JACOBEA		1/ VIA JACOBEA	12 VIA INCA	14 VIA INCA	16 VIA INCA			11 VIA INCA		16 CORTE EL BRAZO			22 CORTE EL BRAZO				13 CORTE EL BRAZO 11 COBTE EL BRAZO			
708-033-16	708-033-17	708-033-18	708-033-19	708-033-20	708-033-22	708-033-23	708-033-24	708-033-26	708-033-27	708-033-34	708-034-01	708-034-02	708-034-03	708-034-04	708-034-05	708-034-06	708-034-00	708-034-17	708-034-18	708-034-19	708-034-20	708-034-21	708-034-23	708-034-24	708 034 26	708-034-26	708-034-28	708-034-29	708-034-30	708-034-31	708-034-32	708-034-33	708-034-34	708-034-35	708-034-36	708-034-38	708-034-39	708-034-54	708-034-55	708-035-25	708-035-46	708-035-47	708-035-48	708-035-50	708-035-52	708-035-53	708-035-54	708-035-55	708-035-56	708-041-09	708-062-01	708-062-04	708-062-05	708-062-06	708-062-07	708-062-16	708-062-17	708-062-18	708-063-15	708-063-16	708-063-17
78	274	275	276	278	279	280	281	282	287	285	286	287	288	289	290	291	292	294	295	296	297	298	299	300	303	302	304	305	306	307	308	309	310	311	312	314	315	316	317	318	319	320	321	327	324	325	326	327	328	328	331	332	333	334	335	336	337	338	340	341	342

CALLE LOYOLA	16569	\$546,638	\$1,271,500	\$724,862	07/20/05	\$484,873	\$193,021	SHEA HOMES SHEA HOMES
+	16569	\$563,385	\$1,320,300	\$748,115	07/20/05	\$484,873	\$78,512	SHEA HOMES SHEA HOMES
H	16569	\$546,638	\$1,213,500	\$666,862	07/19/05	\$484,873	\$61,765	SHEA HOMES
+	16569	\$484,873	\$1,143,000	\$881,627	08/02/05	\$484,873	\$0	SHEA HOMES
Н	16569	\$484,874	\$1,416,000	\$931,126	07/20/05	\$484,874	0\$	SHEA HOMES
+	16569	\$484,874	\$1,459,000	\$974,126	08/02/05	\$484,874	0\$	SHEA HOMES SHEA HOMES
Н	16569	\$484,874	\$1,269,500	\$784,626	08/02/05	\$484,874	\$0	SHEA HOMES
T	16569	\$484,874	\$1,243,000	\$758,126	08/04/05	\$484,874	\$0	SHEA HOMES
Т	16569	\$484,874	\$1,191,500	\$7.00,626 \$640,626	07/120/05	\$484,874	04	SHEA HOMES
T	16569	\$484,874	\$1,122,500	\$637,626	08/02/02	\$484,874	\$0\$	SHEA HOMES
H	16629	\$60,112	\$806,000	\$745,888	11/18/05	\$60,112	\$0	STANDARD PACIFIC CORP
\forall	16629	\$60,111	\$803,000	\$742,889	11/18/05	\$60,111	\$0	STANDARD PACIFIC CORP
+	16629	\$60,111	\$850,000	\$789,889	11/18/05	\$60,111	<u>Ş</u> €	STANDARD PACIFIC CORP
+	16629	\$60.111	\$763,000	\$707.889	12/12/05	\$60.111	3 6	STANDARD PACIFIC CORP
ŀ	16629	\$60,111	\$887,500	\$827.389	11/18/05	\$60,111	90%	STANDARD PACIFIC CORP
16	3629	\$60,111	\$872,000	\$811,889	11/18/05	\$60,111	\$0	STANDARD PACIFIC CORP
1(3629	\$60,111	\$797,500	\$737,389	11/30/05	\$60,111	\$0	STANDARD PACIFIC CORP
-	6299	\$60,111	\$845,500	\$785,389	11/30/05	\$60,111	\$0	STANDARD PACIFIC CORP
<u> </u>	6299	\$60,112	\$877,500	\$817,388	11/30/05	\$60,112	0\$	STANDARD PACIFIC CORP
÷ ;	16629	\$60,112	\$889,000	\$828,888	11/30/05	\$60,112	20	STANDARD PACIFIC CORP
91	679	\$60,112	\$1,013,500	\$953,388	11/30/05	\$60,112	Q Q	STANDARD PACIFIC CORP
	16620	\$60,11	\$840,000	\$2270 880	11/30/03	\$60.411	9	STANDADI DACIDIO CONF
7 4	16629	\$60,111	\$883,000	\$822,889	11/18/05	\$60.111	G &	STANDARD PACIFIC CORP
16	16629	\$60,111	\$934,500	\$874,389	11/18/05	\$60,111	\$0	STANDARD PACIFIC CORP
16	16629	\$60,111	\$821,500	\$761,389	11/18/05	\$60,111	\$0	STANDARD PACIFIC CORP
166	59	\$60,111	\$884,000	\$823,889	11/18/05	\$60,111	\$0	STANDARD PACIFIC CORP
16629	53	\$60,111	\$795,500	\$735,389	11/18/05	\$60,111	0\$	STANDARD PACIFIC CORP
16215		\$122,276	\$629,500	\$507,224	09/22/05	\$0	\$122,276	LENNAR HOMES OF CA INC
16215	ΩĽ	\$122,276	\$647,000	\$524,724	09/22/05	\$0	\$122,276	LENNAR HOMES OF CALIFORNIA INC
167	12	\$294,023	\$529.000	\$234.977	01/12/05	\$148,200	\$145.823	LENNAR HOMES OF CALIFORNIA INC
16,	16215	\$122,276	\$695,000	\$572,724	10/06/05	\$0	\$122,276	LENNAR HOMES OF CALIFORNIA INC
16	1215	\$122,276	\$535,000	\$412,724	10/06/05	\$0	\$122,276	LENNAR HOMES OF CALIFORNIA INC
Ì	16215	\$122,276	\$639,000	\$516,724	10/06/05	\$0	\$122,276	LENNAR HOMES OF CALIFORNIA INC
\dashv	16215	\$122,276	\$539,000	\$416,724	10/06/05	\$0	\$122,276	LENNAR HOMES OF CALIFORNIA INC
+	16215	\$122,276	\$537,000	\$414,724	10/06/05	QS .	\$122,276	LENNAR HOMES OF CALIFORNIA INC
+	16215	\$122,276	\$653,500	\$531,224	10/06/05	\$0	\$122,276	LENNAR HOMES OF CALIFORNIA INC
+	16215	\$221,557	\$634,500	\$412,943	03/03/05	\$118,843	\$102,714	LENNAR HOMES OF CALIFORNIA INC
+	16215	\$218,708	\$638,000	\$419,292	04/01/05	\$118,843	\$99,865	LENNAR HOMES OF CALIFORNIA INC
+	16215	\$22 1,337 \$245,083	\$517,000	\$432,443	04/1/2/03	\$110,043 €118 8/13	\$102,714 \$06.240	LEINIAR HOMES OF CALIFORNIA INC
ł	16215	\$218 708	\$639 500	\$420.792	03/27/05	\$118.843	\$99.865	FINAR HOMES OF CALIFORNIA INC
+	16215	\$221,557	\$630,000	\$408 443	04/24/05	\$118.843	\$102,222	I ENNAR HOMES OF CALIFORNIA INC
t	16215	\$215.083	\$509,000	\$293,917	04/19/05	\$118.843	\$96.240	I ENNAR HOMES OF CALIFORNIA INC
┝	16215	\$215,083	\$505,000	\$289,917	03/02/05	\$118,843	\$96,240	LENNAR HOMES OF CALIFORNIA INC
	16215	\$218,708	\$594,000	\$375,292	03/07/05	\$118,843	\$99,865	LENNAR HOMES OF CALIFORNIA INC
	16215	\$215,083	\$490,000	\$274,917	04/05/05	\$118,843	\$96,240	LENNAR HOMES OF CALIFORNIA INC
H	16215	\$122,277	\$550,000	\$427,723	08/09/05	\$0	\$122,277	LENNAR HOMES OF CALIFORNIA INC
	16215	\$122,277	\$615,500	\$493,223	08/09/05	\$0	\$122,277	LENNAR HOMES OF CALIFORNIA INC
	16215	\$122,277	\$532,000	\$409,723	08/09/05	\$0	\$122,277	LENNAR HOMES OF CALIFORNIA INC
4	16215	\$122,277	\$625,000	\$502,723	08/09/05	\$0	\$122,277	LENNAR HOMES OF CALIFORNIA INC
	16215	\$122,277	\$635,000	\$512,723	08/11/05	\$0	\$122,277	LENNAR HOMES OF CALIFORNIA INC
4	16215	\$122,277	\$544,000	\$421,723	08/09/05	08	\$122,277	LENNAR HOMES OF CALIFORNIA INC
+	16215	\$122,277	\$597,000	\$474,723	08/11/05	0,5	\$122,277	LENNAK HOMES OF CALIFORNIA INC
+	16215	\$122,211	\$532,000	\$400,723	00/11/00	00	\$122,277	LEININAR HOMES OF CALIFORNIA INC
+	16215	\$122,217	\$603.500	\$481,723	08/11/05	Q# Q#	\$122,277	I ENNAR HOMES OF CALIFORNIA INC
t	16215	\$122,277	\$630,500	\$508.223	08/11/05	0\$	\$122.277	LENNAR HOMES OF CALIFORNIA INC
ı	16215	\$122,277	\$543,500	\$421,223	08/11/05	\$0	\$122,277	LENNAR HOMES OF CALIFORNIA INC
П	16215	\$267,043	\$520,000	\$252,957	06/20/05	\$121,220	\$145,823	LENNAR HOMES OF CALIFORNIA INC
	16215	€270 158	\$650 000	\$388 842	04/14/05	\$118.843	\$151,315	I ENNAR HOMES OF CALIFORNIA INC

	LENNAR HOMES OF CALIFONIA INC	LENNAR HOMES OF CALIFORNIA INC	LENNAR HOMES OF CALIFORNIA INC	LENNAR HOMES OF CALIFORNIA INC		HOWARD W C	VIA PROMESA TRUST 303	WAZNY ROGER C & KIMBERI Y E	STAMPER THOMAS M & DEBRA A	FOGLE JOHN L & B H TRUST	COMBS FAMILY TRUST	SMITH FAMILY TRUST	WEISS ADAM N & EUGENIA L	STIFF FAMILY IRUSI	ALL EN WILLIAM A 8 NOBWA	SEABROOK LORRAINE E TRUST	CENDANT MOBILITY FINL CORP	MATSON RICHARD J & MONIKA A	WOODARD MICHAEL R & MEG E	AHMER ALAN C & GRETCHEN M	KANG STEPHEN Y	THOMAS JULIE R	ECHELBERGER DOUGLAS D'& TINA IM HAHN FAMII Y TRUST	OFSTERRFICH JASON A	MARFINO TRUST	MURPHEY 2003 TRUST	SPARKS DALE A	OAS WILLIAM W & ANNE M	BROWN BOBBI-LYNNE	DATTACLIA TILOMAS MATRICET	BATTAGETA THOMAS MITROST	ROMODA LASZLO	PERROTT BYRON N & SANDRA J	BARRY KEVIN P & MARY A	NEEDHAM JAMES R & LESLIE A	MUNUZ KENE & LAKENA ALIDET BRIAN T & CHRISTINE O	HOYOS MARGARET V	JORGENSEN RICHARD E & APRIL H	CAPPADOCIA PAUL M	DAVIDSON VALERIE I D	LUNG TREVOR	NORGREN RYAN E & ERICA N	GIOBBI PAUI & TIFFANEY	PARSONS FAMILY TRUST	LEE KIMBERLY P	FORD STEVEN J & DIANA M	MACLEAN MICHAEL 1.8 MEREDITH E	SCAN ON JASON & TERRA M	SWARBRICK MARK D	LOWERY PATRICK & JULIE	BELLO KERI & REBECCA	BERSHADSKY BORIS & POLYA	PARAGON RELOCATION RSRCS INC	JASCHEK TERRI	BOHUSLAVIZKI ANDREW	LYNCH FAMILY TRUST	HOFFMEYER KENNETH C	DELROSARIO FAMILY TRUST	HAINES BRENT G & AMY E
	\$145,823	\$145,823	\$151,315	\$145,823		\$430,944	\$298,334	\$335 671	\$340,729	\$314,624	\$360,530	\$302,980	\$352,911	\$340,899	\$337,700	\$305,384	\$346,835	\$318,868	\$338,448	\$328,819	\$342,152	\$325,117	\$334,929 \$298,238	\$374 801	\$441.243	\$384,068	\$416,307	\$376,296	\$359,099	\$175.047	\$175,017	\$281,804	\$283,277	\$265,361	\$168,621	\$177,895	\$173.127	\$273,770	\$177,986	\$207,098	\$282,394	\$179,830	\$283.046	\$268,051	\$178,061	\$236,801	\$226,072	\$224.358	\$232,337	\$220,486	\$230,323	\$258,920	\$220,379	\$675,386	\$665,945	\$650,446	\$302,rur \$444.418	\$459,315	\$284,688
	\$118,843	\$121,220	\$118,843	\$121,220		\$298,609	\$670,666	\$251 449	\$307,247	\$306,961	\$429,064	\$198,656	\$232,655	\$4/4,9/3	\$421,292	\$299.974	\$236,806	\$373,712	\$183,575	\$228,260	\$621,748	\$146,206	\$320,662	\$270.567	\$339.950	\$576,772	\$588,903	\$164,567	\$415,706	\$200,904	\$2013,259	\$167,813	\$200,002	\$132,412	\$232,571	\$211,492	\$170,636	\$358,630	\$203,352	\$514,042	\$486,686	\$1/0,4/8	\$112.794	\$208,869	\$169,500	\$414,990	\$331,005	\$202.644	\$517,363	\$206,440	\$227,675	\$281,757	\$212,033	\$776,572	\$638,822	\$602,455	\$434,781	\$502,474	\$143,924
Legisla	04/22/05	06/03/05	01/13/05	90/80/90		10/26/05	04/13/05	07/21/05	03/31/05	02/16/05	02/11/02	11/21/05	06/10/05	04/04/05	50/91/60	09/01/05	01/06/05	10/05/05	05/19/05	10/01/05	10/20/05	90/90/90	90/60/10	03/22/05	07/12/05	04/08/05	09/26/05	07/13/05	03/11/05	20/07/20	03/08/05	03/18/05	05/28/05	04/29/05	10/27/05	50/02/60	09/02/02	03/05/05	02/17/05	01/30/06	04/25/05	09/29/05	12/19/05	12/12/05	90/80/60	04/13/05	90/11/90	02/25/05	05/03/05	90/60/90	01/21/05	01/27/05	02/22/05	06/09/05	01/24/06	10/17/05	09/13/05	03/14/05	10/06/05
	\$250,334	\$247,957	\$337,842	\$249,957	EXISTING HOME DE-SALES	\$934,947	\$6,000	\$512 880	\$442,024	\$418,415	\$510,406	\$498,364	\$474,434	\$264,128	\$200,000	\$384.642	\$496,359	\$233,420	\$442,977	\$645,421	\$136,100	\$458,677	\$339,409	\$479.632	\$643.807	\$264,160	\$124,790	\$729,137	\$330,195	\$306,177	\$372 411	\$365,383	\$351,721	\$466,227	\$448,808	\$415,613	\$441,237	\$177,600	\$328,662	\$245,860	\$35,920	\$454,692	\$554.160	\$473,080	\$452,439	\$273,209	\$338,273	\$437.998	\$215,300	\$473,074	\$333,002	\$244,323	\$410,360 \$415,766	\$1,048,042	\$1,195,233	\$1,252,099	\$//5,UUZ \$179 300	\$538,211	\$470,388
	\$515,000	\$515,000	\$608,000	\$517,000	EXICTIN	\$1,664,500	\$975,000	\$1 100 000	\$1,090,000	\$1,040,000	\$1,300,000	\$1,000,000	\$1,060,000	\$1,080,000	\$1,000,000	\$990,000	\$1,080,000	\$926,000	\$965,000	\$1,202,500	\$1,100,000	\$930,000	\$1035,000	\$1 125 000	\$1.425,000	\$1,225,000	\$1,130,000	\$1,270,000	\$1,105,000	\$745,000	\$755,000	\$815,000	\$835,000	\$864,000	\$850,000	\$805,000	\$785,000	\$810,000	\$710,000	\$967,000	\$805,000	\$805,000	\$740,000	\$950,000	\$800,000	\$925,000	\$896,000	\$865,000	\$965,000	\$900,000	\$791,000	\$785,000	\$855,000	\$2,500,000	\$2,500,000	\$2,505,000	\$1,512,500	\$1,500,000	\$899,000
	\$204,000	\$267,043	\$270,158	\$267,043		\$729,553	\$969,000	\$587 120	\$647,976	\$621,585	\$789,594	\$501,636	\$585,566	\$815,872	0000000	\$605,358	\$583,641	\$692,580	\$522,023	\$557,079	\$963,900	\$471,323	\$534.817	\$645,368	\$781.193	\$960,840	\$1,005,210	\$540,863	\$774,805	\$336,823	\$338,275	\$449,617	\$483,279	\$397,773	\$401,192	\$389,387	\$343,763	\$632,400	\$381,338	\$721,140	\$769,080	\$350,308	\$395.840	\$476,920	\$347,561	\$651,791	\$557,727	\$427,002	\$749,700	\$426,926	\$457,998	\$540,677	\$479,414	\$1,451,958	\$1,304,767	\$1,252,901	\$137,490 \$1 055 700	\$961,789	\$428,612
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FILIPOWSKI MARK S & STEPHANIE R	ZAKAR RARRY E & NANCY C	RIJCKI ES MARYBETH	CANINON CHRISTOPHER TRIIST	ADCOCK IEEE & EBIN TRUST	DAVEGA DIANNE E	HEADDING GARY R JR & HEIDI N	YURKUS KEVIN J & JULIE E	VALERIANO MICHAEL J & MELISSA A	MCCOY JAMES R JR & KASEY M	BAILEY JAMES P & VALERIE A	STIER FAMILY TRUST	NHU	HERRERA RENE A RIBLA E	CHENNELLA NEMERA CASONA E	OANT STATE OANT OANT OANT OANT OANT OANT OANT OANT	DOATTED ALEXANDED A	CHALLES ALEXANDER A	NITI CONTINUENT PONTA D	OLACOMANI DANIEL O VALENTAIA	GLASSIMAN DAINIEL & VALENTINA	CASSELL OF ENN S	CASSELL GLUNN S	COLLERKEZ DAVID III	STIFLER JOHN J & RARI H	TOUNG RICHARD D'& TURINA E	ONIAT PASEMINE	AGUILAR RICHARD L	ASHBACH CHRIS I OPHER A & DANIELLE IVI	HUNG RUBERT I	POLOVNIKOV DMITRY & TATYANA	DELGADO EDUARDO JR	ATKINSON BRETT & RONNA	LOGGANS LYNDA	PARKE RICHARD K & JORDAN M	EAST HOWARD III	EYLEK JASON A & CHRISTINE L	TRUHE JAMES	SELIGHI KAY & GOLNOOSH	CDOSSAN CLANT & ALTISON K	TEDDEP CHRISTOPHED	LIVESATO PHILIP Y & LORNA B	SHEDHERD W.C.I.TRIIST	DOBIAS SCOTT	RIZZO PATRICIA A	PAHL KEVIN C & DITAS S	CARABBA NICK	VICELJA MATTHEW T & KRISTIN K	PADILLA PATRICK J	KANODE IRWIN B & CAROLYN L	KIRKMAN KEITH A & GABRIELLE	HOUSE JAMES R & MICHELLE M	OSBORNE STEPHEN K & JENNIFEK A	DOBSON ION D & DONNA M	WAGONER LISA M	MOHSENI BABAK	HAMID HAROON	GOVAN MUKUND	BAUTISTA DENNIS C & MICHELLE	BISEL BARBARA TRUST	CHOI JAMES	PERDUK DAVID & CHRISTINE D	BELLO KERI & REBECCA	SUKAN FINANCIAL SERVICES INC	LEE STEPHEN M JR & INGRID A	ROMERO RYAN R & JUSTINA M	GRANT RYAN E	GRAEF JOHN L
\$237,016	\$266.010	\$301.118	\$235	\$235,330	\$286.202	\$272,739	\$286,587	\$271,329	\$271,553	\$565,300	\$660,099	\$587.531	\$424 RED	000,000	\$000,203 \$70 870	\$204,078	9515,408	4301,041	4012,004	\$312,304	\$590,215 \$600 464	\$003,404	\$200,004	\$308,081	\$309,4 ID	\$270,033			\$315,514		\$313,067	, ,		\$419,848	\$393,436	\$608,071	\$577,821	\$275,897	\$201,139 \$206 772	\$290,772	\$296.772	\$285,083	\$274 686	\$308 792	\$299.408	\$342,016	\$325,860	\$347,899	\$302,738	\$349,039	\$269,998	\$304,435	\$27.4.000 \$20.4.42E	\$304,433	\$300,727	\$269.363	\$300,713	\$267,890	\$267,890	\$266,728	\$300,713	\$619,512	\$144,525	\$141,327	\$161,137	\$133,293	\$141,327
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03/28/05	02/09/03	04/26/05	03/28/05	03/28/05	08/03/05	01/31/05	01/26/05	04/07/05	01/02/05	03/07/05	02/23/05	04/01/05	11/09/05	05/03/05	44,00,00	11/03/03	0/122/02	0471710	00/22/10	00/46/05	02/16/05	04/22/00	06/24/05	03/31/05	04/00/03	00/07/07	03/17/05	04/13/05	60/91//0	09/06/05	01/06/06	08/26/05	06/23/05	07/01/05	06/22/05	02/01/06	05/23/05	GD/G1/90	10/26/05	10/26/03	07/12/05	05/03/05	08/16/05	06/23/05	04/28/05	09/28/05	03/02/05	11/19/05	03/10/05	09/30/05	12/16/05	10/03/05	11/20/05	11/04/05	05/03/05	10/14/05	11/30/05	09/13/05	10/28/05	10/24/05	12/17/05	09/29/05	03/24/05	10/31/05	04/05/05	01/03/06	01/13/06
\$367,958	\$311.801	\$425 748	\$337 568	\$357,000 \$352,186	\$228.075	\$368.066	\$273,514	\$386,645	\$302,630	\$705,355	\$949.308	\$836.692	\$634 983	\$647.4E0	\$414,132	9411,400	\$377,330	\$330,107	9404 104	9494,097	\$197,383 \$482,606	9402,333	9304, 124	\$416,332 \$407.544	\$497,541	43003,272	\$380,743	\$303,803	\$498,291	\$365,707	\$440,649	\$87,500	\$227,500	\$239,149	\$99,209	\$988,000	\$246,000	\$164,281	\$129,000 \$313,373	\$213,372	\$265.890	\$220,232	\$209 199	\$230,133	\$504.283	\$283.919	\$222.831	\$477,010	\$121,720	\$288,010	\$322,170	\$240,793	6241 224	\$262 765	\$285,747	\$102.461	\$252,114	\$155,950	\$197,720	\$194,140	\$235,000	\$390,004	\$413,437	\$268,194	\$179,239	\$215,606	\$248,059
\$767,500	\$815,000	\$1 040 000	\$855,000	\$205,000	\$851.500	\$810,000	\$850,000	\$840,000	\$770,000	\$1,800,000	\$2,037,000	\$1 750 000	\$1.400,000	94,000,000	94.047.000	000,047,10	\$300,000 #4 040,000	\$1,210,000	000,000	\$1,100,000	\$1,464,000 \$1,560,000	91,000,000	000,389,000	\$975,000	00000000	000,000	993,000	\$835,000	\$1,075,000	\$1,090,000	\$1,200,000	\$1,012,500	\$1,369,000	\$1,199,000	\$1,000,000	\$2,340,000	\$1,485,000	\$885,000	\$020,000	\$950,000	\$985.500	\$920,000	\$889,000	\$890,000	\$975,000	\$1.005.000	\$844,000	\$1,300,000	\$842,000	\$1,085,000	\$900,000	\$850,000	\$770,000	\$910,000	\$980,000	\$890.000	\$950,000	\$765,000	\$775,000	\$785,000	\$950,000	\$2,350,000	\$640,000	\$649,000	\$525,000	\$585,000	\$650,000
\$399,542	\$503.100	\$614.252	\$517.432	477.817	\$623.425	\$441.934	\$576,486	\$453,355	\$467,370	\$1,094,645	\$1.087.692	\$913.308	\$765,017	64 000 040	#026.040	9000,034	\$002,044	407.0,000	\$000,000 \$000	\$5005,403	\$1,200,037 \$1,077,40E	01,011,403	91,034,070	\$228,008	\$332,039	9409,720	\$306,237	\$551,395	\$57b,709	\$724,293	\$759,351	\$925,000	\$1,141,500	\$959,851	\$900,791	\$1,352,000	\$1,239,000	\$7.00,000	6748.630	\$7.10,020	\$719,610	\$600,743	\$679.801	\$659.087	\$470.717	\$721.081	\$621.169	\$822,990	\$720,280	\$796,990	\$577,830	\$609,207	\$390,700 \$649 868	\$647.235	\$694.253	\$787.539	\$697,886	\$609,050	\$577,280	\$590,860	\$715,000	\$1,959,996	\$226,563	\$380,806	\$345,761	\$369,394	\$401,941
15953	15953	15953	15953	15053	15953	15953	15953	15953	15953	14224	14224	14224	14224	1777	47741	14220	14220	14220	14220	16056	15055	13333	10900	15954	10804	10004	10804	10804	15854	15954	13935	13935	16413	16413	16413	16252	16252	2020	16265	16365	16365	16365	16365	16366	16366	16366	16366	16366	16366	16366	16216	16216	16216	16216	16216	16216	16216	16216	16216	16216	16216	16370	16330	16330	16330	16330	16330
CORTE DEL ORO	CONTEDE ONO	CORTEMINA	CORTE MIRA	CORTE WINA	CORTE TIERRA RELLA	CORTE TIERRA BELLA	CORTE TIERRA BELLA	CORTE TIERRA BELLA	CORTE TIERRA BELLA	CALLE ANGELITOS	CALLE VISTA DEL SOL	CALLE VISTA DEL SOL	CALLEDELALINA	CALLE DE LA EGINA	VALUE VISTA DEL SOL	VIA CANCION	VIA BELLEZA	VIA BELLEZA	VIA BELLEZA	VIA BELLEZA	CALLE VISTA DEL SOL	CALLE VISTA DEL SOL	VALUE DE LA LUINA	VIA CANCION	VIA CANCION	CAMINO FLORA	CAIMING FLORA	CAIMING FLORA	VIA CANCION	VIA PAQUETE	CALLE PORTOFINO	CALLE PORTOFINO	CORTE VIDRIOSA	CORTE VIDRIOSA	CORTE VIDRIOSA	CALLE GAULIERIA	CALLE AVEITONA	VIA CERAMICA	CALLETTAG	CALLE FROITAS	VIA CERAMICA	VIA CERAMICA	VIA CERAMICA	VIA ABA.IAR	VIA ABAJAR	VIA ABAJAR	VIA ABAJAR	CALLE VERDADERO	CALLE VERDADERO	CALLE VERDADERO	VIA CADIZ	VIA CADIZ	VIA CADIZ	VIA OVIENDO	VIA SANTANDER	VIA SANTANDER	VIASANTANDER	VIA JARABE	VIA MARIN	VIA MARIN	VIA BELORADO	CALLE CAREYES	CALLE CAMPANERO	PASEO LUNA	PASEO LUNA	CALLE CAMPANERO	CALLE CAMPANERO
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701-201-21	701-201-22	701-211-01	701-211-01	701-211-02	701-211-31	701-211-35	701-211-41	701-211-42	701-211-45	701-223-09	701-223-22	701-224-10	701-224-31	704 224 45	704 224-43	704 004 05	20162-107	704 224 27	704 004 00	701-231-32	701 242-07	704 242-11	704 242-40	704 243-23	704 244 40	701-244-10	701-244-13	701-244-23	701-244-49	701-244-73	701-301-18	701-301-31	701-352-22	701-352-26	704 202 20	/01-362-20	701-363-28	704 262 25	701 302 37	701-383-10	701-383-13	701-383-17	701-383-37	701-392-24	701-392-28	701-392-42	701-392-43	701-393-06	701-393-09	701-393-12	701-401-01	701-401-05	701 401 07	701-401-07	701-411-08	701-411-11	701-411-20	701-411-33	701-411-37	701-411-40	701-411-48	708-021-05	930-02-430	930-02-442	930-02-448	930-02-451	930-02-453
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APPENDIX H

MARKET ABSORPTION STUDY

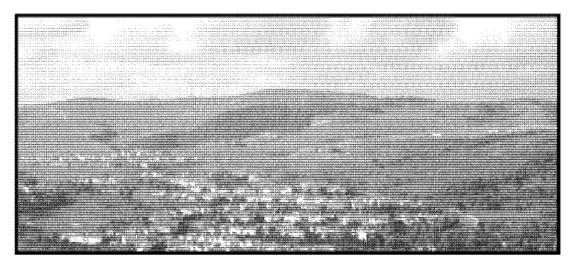
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CAPISTRANO UNIFIED SCHOOL DISTRICT

COMMUNITY FACILITIES DISTRICT NO. 90-2

(TALEGA)



DEVELOPMENT ACTIVITY IN A PORTION OF THE CFD

BY EMPIRE ECONOMICS, INC.
MARCH 20, 2006

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CERTIFICATION OF INDEPENDENCE

The Securities & Exchange Commission has recently taken action against Wall Street firms that have utilized their research analysts to promote companies with whom they conduct business, citing this as a potential conflict of interest. Accordingly, Empire Economics (Empire), in order to ensure that its clients are not placed in a situation that could cause such conflicts of interest, provides a Certification of Independence. Specifically, the Certificate states that Empire performs consulting services for **public entities only** in order to avoid potential conflicts of interest that could occur if it also provided consulting services for developers/builders. For example, if a research firm for a specific Community Facilities District or Assessment District were to provide consulting services to both the public entity as well as the property owner/developer/builder, then a potential conflict of interest could be created, given the different objectives of the public entity versus the property owner/developer.

Accordingly, Empire Economics certifies that the Market Absorption Study for CFD No. 90-2 (Talega) of the Capistrano Unified School District was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the Capistrano Unified School District, not the District's property owner or the developer/builders.
- Empire has not performed any consulting services for the District's property owner or the developer/builders during at least the past five years.
- ➤ Empire will not perform any consulting services for the District's property owner or the developer/builders during at least the next three years.
- Empire's compensation for performing the Market Absorption Study for the District is not contingent upon the issuance of Bonds; Empire's fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 90-2 (Talega) of the Capistrano Unified School District was performed in an independent professional manner.

Empire Economics, Inc. Joseph T. Janczyk, President

983

INTRODUCTION TO THE BOND FINANCING PROGRAM

The Planned Community of Talega, consisting of some 3,510 acres, is located in the City of San Clemente as well as the County of Orange, approximately one mile to the east of Interstate 5, with Pico Avenue near its southerly boundary. Talega has received planning approvals for up to 4,500 residential units, including single-family detached homes, condominiums, townhomes, and apartments. Presently, Talega Associates, LLC's current development strategy is for the development of some 3,800+residential units; this is less than the number of entitlements, and so it is within the planning approval parameters. Additionally, there are approximately 50.9 acres for a Business Park as well as another 12.1 acres for commercial-retail centers. Finally, there are 2,025 acres of permanent open space, an eighteen hole championship golf course, and approximately 74 acres for community parks.

The Capistrano Unified School District (CUSD) previously formed a Community Facilities District (CFD) for the Master Planned Community of Talega, hereafter referred to as CFD No. 90-2, to assist with the financing of a portion of the infrastructure that is required to support the development of the residential as well as the industrial and retail projects. The CUSD authorized the issuance of several Bond Issues that provided funds for various infrastructure components, including school facilities, road, water and sewer improvements, among others.

The Capistrano Unified School District is now considering refunding the prior Bond Issues, in order to reduce the amount of interest paid on the Bonds. The more favorable interest rates are due primarily to two factors:

- First, the development status of the properties within CFD No. 90-2; most of the projects have been constructed and are occupied.
- > Secondly, the current financial market conditions which are conducive to a refunding.

The amount of the reduction in the interest rate payments will be determined when the Bonds are actually marketed.

The Capistrano Unified School District has retained Empire Economics Inc. (Empire), an economic and real estate consulting firm, to perform a Market Absorption Study for the currently active and also the forthcoming projects within CFD No. 90-2 (Talega). The purpose of the Market Study for CFD No. 90-2 is to perform a comprehensive analysis of the relevant economic and real estate factors in order to arrive at an estimate of the probable absorption schedules for the currently active and forthcoming residential projects.

Twentynine Palms Amboy Palm Springs Morongo Valley SOUTHERN CALIFORNIA MARKET REGION March 20, 2006 Barstow San Diego Randio Orramonga Sun Bernai dino Redands Chula Visi Moremo Valley Bahung **Temecula** Virtorille Erver side Hesperia Santa Ann anahem rds Ay force. Bass Dormey Laffahra os Angeles Pancaster Palmdale Saute Clarica Redondo Beach Thousand Oaks CFD NO.90-2 (TALEGA) Ventura Simi Valley. Empire Economics Salar. Santa Paula Part Huene 985

March 20, 2006

CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR THE PROJECTS IN CFD NO. 90-2

The properties in CFD No. 90-2, based upon their planning approvals as well as representations from the developer, Talega Associates, and the various builders, have some 950 homes in eight currently active and six forthcoming projects; accordingly, their characteristics are now discussed.

Currently Active Projects:

- ➤ Caprizi by Standard Pacific has 104 single-family detached homes that are priced at some \$787,500 for some 2,406 sq.ft. of living area for a value ratio (price/living area) of \$327, on the average; thus far, 23 of these homes have closed escrow, and so there are another 81 remaining for future occupancies.
- ➤ **Portomarin** by Standard Pacific has 75 single-family detached homes that are priced at some \$915,500 for some 2,746 sq.ft. of living area for a value ratio of \$333, on the average; thus far, 10 of these homes have closed escrow, and so there are another 65 remaining for future occupancies.
- ➤ Vittoria by Standard Pacific has 61 single-family detached homes that are priced at some \$928,000 for some 2,896 sq.ft. of living area for a value ratio of \$320, on the average; thus far, 57 of these homes have closed escrow, and so there are only 4 remaining for future occupancies.
- > Stella Mare by Standard Pacific has 107 single-family detached homes that are priced at some \$1,105,000 for some 3,257 sq.ft. of living area for a value ratio of \$339, on the average; thus far, none of these homes have closed escrow, and so all 107 are remaining for future occupancies.
- ➤ Catania by Standard Pacific has 109 single-family detached homes that are priced at some \$1,159,250 for some 3,187 sq.ft. of living area for a value ratio of \$364, on the average; thus far, 64 of these homes have closed escrow, and so there are another 45 remaining for future occupancies.
- ➤ Cazadero by Shea Homes has 72 single-family detached homes that are priced at some \$1,225,000 for some 3,872 sq.ft. of living area for a value ratio of \$316, on the average; thus far, 31 of these homes have closed escrow, and so there are another 41 remaining for future occupancies.
- ➤ Careyes by Brookfield has 42 single-family detached homes that are priced at some \$1,853,500 for some 4,843 sq.ft. of living area for a value ratio of \$383, on the average; thus far, 38 of these homes have closed escrow, and so there are another 4 remaining for future occupancies.
- Lucia by Laing Luxury has 53 single-family detached homes that are priced at some \$2,567,500 for some 5,870 sq.ft. of living area for a value ratio of \$437, on the average; thus far, none of these homes have closed escrow, and so all 53 are remaining for future occupancies.

Forthcoming Projects:

- ➤ **Sabella** by Pulte is expected to have 75 single-family detached homes that are anticipated to be priced at some \$771,000 for some 2,300 sq.ft. of living area for a value ratio (price/living area) of \$335, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007.
- ▶ **Bella Vista** by Manning Homes is expected to have 14 single-family detached homes that are anticipated to be priced at some \$1,190,000 for some 3,500 sq.ft. of living area for a value ratio of \$340, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007.
- ➤ Carillon by Standard Pacific is expected to have 84 single-family detached homes that are anticipated to be priced at some \$1,295,000 for some 3,700 sq.ft. of living area for a value ratio of \$350, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007.
- ➤ Ravenna by John Laing is expected to have 42 single-family detached homes that are anticipated to be priced at some \$1,476,000 for some 4,100 sq.ft. of living area for a value ratio of \$360, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007.
- ➤ **Alora** by William Lyon is expected to have 49 single-family detached homes that are also anticipated to be priced at some \$1,476,000 for some 4,100 sq.ft. of living area for a value ratio of \$360, on the average, and this project is expected to commence occupancies during 3rd-quarter of 2007.
- ➤ Alta by Standard Pacific is expected to have 63 single-family detached homes that are anticipated to be priced at some \$2,000,000 for some 5,000 sq.ft. of living area for a value ratio of \$400, on the average, and this project is expected to commence occupancies during 3rd-quarter of 2007.

So, for all of the projects in CFD No. 90-2, as a whole, they have an actual/expected price range from \$770,000 to \$2,648,000, an overall average of some \$1,260,494. While their living areas range from 2,300 sq.ft. to 6,055 sq.ft., for an overall average of 3,518 sq.ft. Together, these projects have some 950 homes, of these 223 are currently occupied, and so there are another 727 remaining for future occupancies.

Please refer to the table and graphs on the following pages for further information on the product characteristics for the current active as well as the forthcoming projects in CFD No. 90-2.

3rd-2007

3rd-2007

1st-2007

1st-2007

1st-2007

1st-2007

Active

Active

Active

Active

Active

Active

Active

Active

Commence Occupancies

\$400

\$360

\$360

\$350

S340

\$335

\$437

S383

\$316

\$364

8339

\$320

\$333

S327

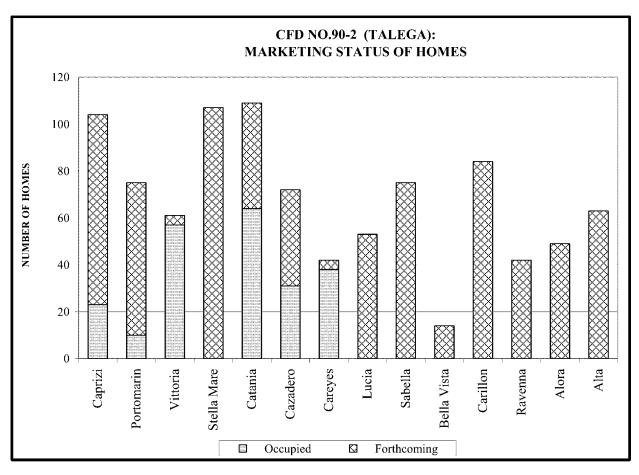
Value Ratio: Price/Living Area

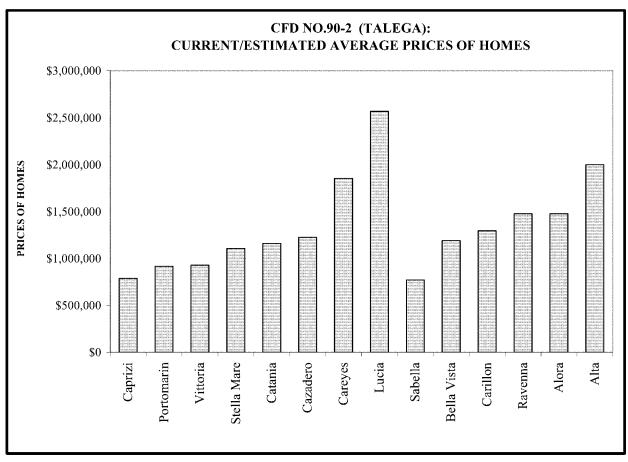
Empire Economics

. MARCH 20, 2006 - SUBJECT TO REVISION

CHARACTERISTICS OF THE ACTIVE/FORTHCOMING PROJECTS IN CFD NO. 90-2 (TALEGA)

\$2,000,000 Standard Pacific 16630 5,000 Alta N/A 63 0 63 Living Areas provided by Talega Associates, LLC - Subject to Revision Prices Estimated by Empire Economics - Subject to Revision \$1,476,000 William Alora 16795 4,100 Lyon N/A 49 0 49 FORTHCOMING PROJECTS \$1,476,000 Ravenna 16570 4,100 Laing John N/A 42 45 \$1,295,000 Carillon Standard Pacific 16336 3,700 N/A 84 0 84 Bella Vista \$1,190,000 Manning Homes 16546 3,500 N/A 7 4 0 \$771,000 Sabella 16631 2,300 Pulte N/A 75 75 0 \$2,567,500 \$2,648,000 \$2,487,000 15,000 Luxury 16614 Lucia Laing 16335 5,685 5,870 6,055 53 53 0 \$1,853,500 \$2,037,000 \$1,670,000 Brookfield Careyes 11,000 16370 4,448 4,843 5,237 42 38 4 Shea Homes \$1,200,000 \$1,225,000 \$1,250,000 Cazadero 16517 7,400 3,753 3,872 3,990 72 4 31 CURRENTLY ACTIVE PROJECTS \$1,159,250 \$1,258,500 \$1,060,000 Catania Standard Pacific 16369 16368 7,000 2,873 3,187 3,501 109 45 64 Actual Market Prices Stella Mare \$1,015,000 \$1,105,000 \$1,195,000 Standard Pacific 16615 7,100 3,048 3,257 3,465 107 0 107 \$928,000 Vittoria Standard \$895,000 \$961,000 Pacific 16519 13935 2,686 7,000 2,896 3,106 19 57 4 Portomarin \$945,000 \$915,500 Standard \$886,000 Pacific 91991 2,610 2,746 5,500 2,882 75 01 65 \$805,000 \$787,500 Caprizi Standard \$770,000 Pacific 16629 2,406 5,500 2,341 2,471 104 23 81 Base Housing Prices Marketing Status: Fract Numbers Forthcoming Projects >>> iving Areas Occupied Average Average Builders> Lower Upper Lower Upper ot Sizes Total





ROLE OF THE MARKET STUDY IN THE BOND FINANCING CFD NO. 90-2

The Market Absorption Study for CFD No. 90-2 (Talega) has a multiplicity of roles with regards to the Bond Financing; accordingly, these are now discussed.

Marketing Prospects for the Various Products Types

Official Statement

Prospective Bond Purchasers

Aggregate Levels of Special Tax Revenues

Maximum Special Taxes for the Residential Projects/Products Conforming to the Issuer's Policies

Share of Payments:
Developer/Builders vs. Final-Users
Determined by the Absorption Schedules

Appraisal of Property

Discounted Cash Flow – Present Value

Absorption Schedules

The Issuing Agency for the Bond Issue, CFD No. 90-2 of the CUSD, along with the Finance Team, can utilize the Market Absorption Study, Appraisal, and Special Tax Revenue to structure the Bond Issue.

METHODOLOGY UNDERLYING THE MARKET STUDY FOR CFD NO. 90-2

To perform a comprehensive analysis of the macroeconomic and microeconomic factors that are expected to influence the absorption of the residential detached housing products in CFD No. 90-2, Empire's Market Absorption Study conducts a systematic analysis of the following factors:

MACROECONOMIC FACTORS FOR CFD NO. 90-2 MARKET AREA

* Market Supply
Planning Projections
* Market Demand
Economic Conditions
* Reconciliation
Growth Potential for the
Market Area

MICROECONOMIC FACTORS FOR CFD NO. 90-2

Regional Development Patterns
Socioeconomic: School and Crime
Housing Price Trends and Patterns
Competitive Market Analysis – Product Types
Residential Projects
*Location
*Product Types
*Prices

*Special Taxes/Assessments
*Features/Amenities

ESTIMATED ABSORPTION SCHEDULES

Each Project

*Residential Single-Family Detached Homes

*Market Entry to Build-Out

Therefore, the Market Absorption Study systematically proceeds from the macroeconomic analysis of the Market Region's future housing, industrial and commercial growth to the microeconomic analysis of the estimated absorption schedules for the residential housing products/projects in CFD No. 90-2.

RECENT/EXPECTED ECONOMIC TRENDS/PATTERNS

The purpose of this section is to discuss the recent/expected economic trends/patterns for the United States (US), California (CA), and Orange County (OC), including Gross Domestic Product, employment, housing starts and mortgage rates.

Recent /Expected Real Gross Domestic Product Trends/Patterns

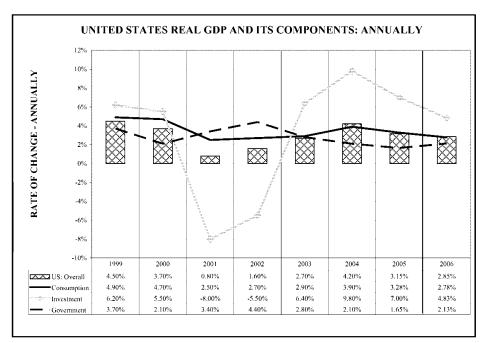
With regards to the recent/expected growth rates for Gross Domestic Product (GDP) for the United States economy, they are as follows:

- During 1999 and 2000, real GDP increased at strong rates of by 4.50% and 3.70%, respectively.
- Then, in 2001 and 2002, as the economy slowed, real GDP increased by only 0.80% and 1.60%, respectively.
- In 2003 and 2004, as the economy rebounded, real GDP increased by some 2.70% and 4.20%, respectively.
- For 2005, real GDP growth moderated somewhat to a rate of 3.15%.
- For 2006, real GDP is expected to moderate further to a rate of some 2.85%.

Next, with respect to the actual/expected rates of change for the various components of real GDP for 2005 as compared to 2006 are as follows:

- Consumption, which increased at some 3.28% in 2005 is expected to moderate to a rate of some 2.78% in 2006.
- Business investment, which increased at some 7.00% in 2005 is expected to moderate to 4.83% in 2006.
- Finally, with respect to government purchases, which grew at a rate of 1.65% in 2005 are expected to increase by 2.13% in 2006.

Therefore, comparing the rates of growth for the various components of real GDP for 2006 as compared to 2005 reveals that the overall rate of growth is expected to moderate somewhat while among the various sectors, consumption and investment are expected to moderate while the rate of growth for government spending rises.



Recent/Expected Employment Trends/Patterns

With regards to the recent/expected growth rates for employment, these are now discussed for the United States, California, and Orange County economies, both on an annual as well as a quarterly basis.

For the United States economy, the recent trends/patterns for employment have been as follows:

- In 1999 and 2000, employment growth was strong, some 2.44% and 2.20%, respectively.
- Then, in 2001, due to the economic slowdown, employment was virtually stable.
- For 2002, employment declined by -1.13%., followed by a decrease of -0.26% in 2003.
- In 2004, as the economy moved into its recovery phase, employment rose by some 1.13%.
- For 2005, as the economy expanded further, employment rose by 1.39%.
- For 2006, as the economy slows, employment growth is expected to moderate to 1.16%

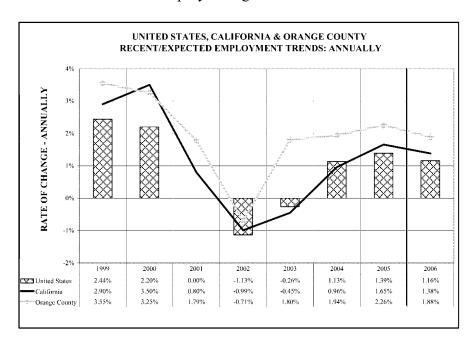
California's employment followed a generally similar pattern:

- Strong rates of employment growth in 1999 and 2000 of 2.90% and 3.50%, respectively.
- Then in 2001, employment rose only moderately, some 0.80%.
- However, in 2002 to 2003, employment declined to -0.99% and -0.45%, respectively.
- For 2004, the economy moved into a recovery, with an employment gain of 0.96%.
- In 2005, the economy had stronger growth, with employment rising at a rate of 1.65%.
- For 2006, as the economy slows, employment growth is expected to moderate to 1.38%

Orange County, on a comparative basis, has performed favorably:

- Orange County experienced strong, though diminishing, rates of employment growth during 1999-2001, from 3.55% in 1999 to 1.79% in 2001.
- Then, in 2002, employment declined to some -0.71%.
- In 2003, the economy recovered, and employment increased at a rate of 1.80%
- For 2004, the rate of employment growth rose to 1.94%.
- In 2005, the rate of growth rebounded to some 2.26%.
- For 2006, the rate of growth is expected to moderate to some 1.88%.

Therefore, during 2006, the United States, California and Orange County economics are expected to have some moderation in their rates of employment growth.

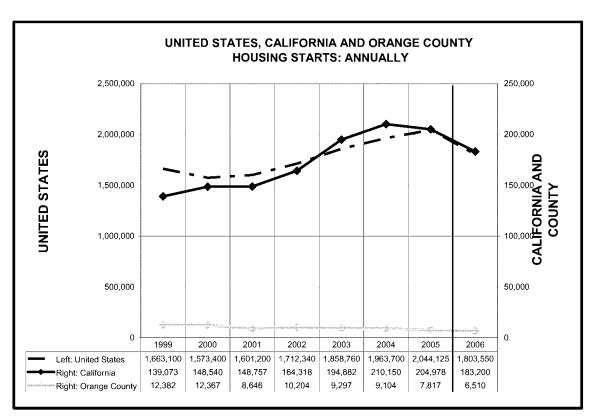


Recent/Expected Tends/Patterns for Housing Starts

With regards to the recent trends and patterns for housing starts, they are as follows:

- The United States housing market experienced a strong growth during the 2000 to 2005 time period, with the number of new homes rising from 1,573,400 in 2000 to 2,044,125 in 2005. For 2006, the United States housing market is expected to moderate to some 1,803,550 new homes, due to the combined impacts of a slowing economy as well as higher mortgage rates.
- For the California housing market, housing starts have had strong growth during 1999 to 2005, as the number of new homes rose from 139,073 in 1999 to 204,978 in 2005. The California housing market is expected to decrease somewhat in 2006 to some 183,200 new homes, also as a result of a slowing economy and higher mortgage rates.
- Finally, with respect to Orange County, housing starts declined during the 2000-2005 time period, from 12,382 homes in 1999 to 7,817 homes in 2005, due to the scarcity of developable property. For 2006, the level of activity is expected to decline further, to some 6,510 homes, again due again to the scarcity of developable property.

So, for 2006, the United States, California, and Orange County housing markets are expected to decline somewhat from their 2005 levels, due primarily to higher levels of mortgage rates as well as the scarcity of developable property in Orange County.

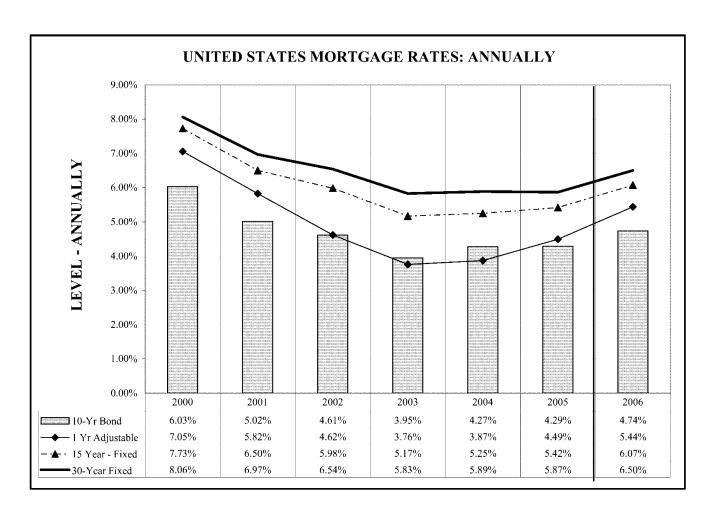


Recent/Expected Trends in Mortgage Rates

The recent/expected trends/patterns for mortgage rates, including the 15 year fixed rate mortgage, as well as the 10-year Treasury Bond which influences the 15 year fixed rate mortgage, and the 1 year adjustable, are now discussed:

- During the 2000 to 2003 time period, the rates on the 10-year Treasury Bond, 15 year fixed mortgage and the 1 year adjustable mortgage all declined: the 10-year Treasury Bond from 6.03% to 3.95% (-2.08%), the 15 year fixed mortgage from 7.73% to 5.17% (-2.56%), and the 1 year adjustable mortgage from 7.05% to 3.76% (-3.29%).
- From 2003 to 2005, the rates started to rise: on the 10-year Treasury Bond from 3.95% to 4.29% (+0.34%), the 15 year fixed mortgage from 5.17% to 5.42% (+0.25%), and the 1 year adjustable mortgage from 3.76% to 4.49% (+0.73%).
- For 2006 as compare to 2005, the rates are expected to rise further, the 10-year Treasury Bond from 4.29% to 4.74% (+0.45%), the 15 year mortgage from 5.42% to 6.07% (+0.65%), and the 1 year adjustable mortgage from 4.49% to 5.44% (+0.95%).

So, during 2006, financial rates are expected to rise at a faster pace, with an increase in the 10-year Treasury Bond driving up the 15 year fixed rates by some 0.65% while the increases in the federal fund rate by the Federal Reserve Board drives up the 1 year adjustable rate mortgages by some 0.95%.



SOCIOECONOMICS CHARACTERISTICS: CRIME LEVELS AND THE QUALITY OF SCHOOLS

When households consider the purchase of a home, the primary factors are the location (relative to their place of employment) and price (within their income/affordability levels). Furthermore, secondary socioeconomic factors that are significant include the safety of the neighborhood as well as the quality of the schools; accordingly, these are now discussed.

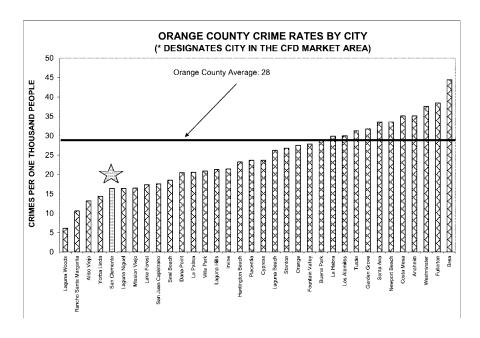
Crime Levels and Neighborhood Safety

To gauge the safety of Orange County and the CFD No. 90-2 Neighborhood Area, information on crime levels was obtained utilizing the most recent data available from the Federal Bureau of Investigation (FBI) Index.

The FBI Crime Index represents a compilation of crime data using the Uniform Crime Reporting system to ensure reliability and consistency among various geographical areas. The FBI Crime Index has two components for crime: violent crime and property crime. Violent crime consists of murder and non-negligent man-slaughter, forcible rape, robbery, and aggravated assault. Property crime consists of burglary, larceny-theft, motor vehicle theft and arson. For the State of California, approximately 88% of all crimes are property crimes whereas 12% are violent crimes. However, it should be noted that these statistics do not measure the "human or emotional" reactions of individuals to different types of crime. To adjust for the population differences of various geographical areas, Empire Economics divides the crime levels by the population to represent the number of crimes per 1,000 people.

For California, as a whole, the average crime rate is approximately 40.2 per 1,000 people per year. For Southern California the rate is 39.1, slightly lower than the state, while for Orange County, the rate is only 27.9. So, Orange County has a significantly lower crime rate than either California or Southern California, and, as such, is a safer place to live.

According to the FBI index, Orange County has a crime rate of about 28 per 1,000 people per year. With respect to the CFD No. 90-2 Neighborhood Area, consisting primarily of the City of San Clemente, it has a significantly lower crime rate, only some 16.4.

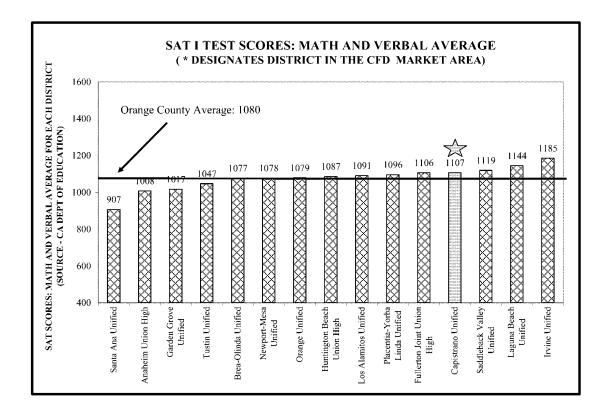


Quality of Schools and Education

To gauge the quality of schools in Orange County and the CFD No. 90-2 Neighborhood Area, information was compiled on educational achievement, specifically the SAT I scores.

For the Southern California counties, as a whole, the SAT I scores (with 1600 being the highest possible) were at a level of 1014 and this is similar to the scores for California as a whole, some 1015. While for Orange County, in particular, the SAT I scores amount to 1080, significantly higher than the overall averages for California and also Southern California.

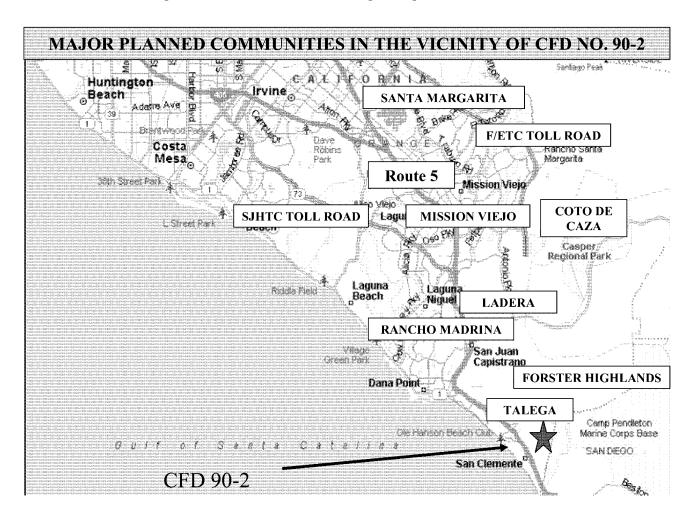
For Orange County, the average SAT I score was 1080. For the school district in the CFD No. 90-2 Neighborhood Area, the Capistrano Unified School District, their SAT I score amounts to 1,107, and this is slightly higher than for Orange County as a whole.



Therefore, from a socioeconomic perspective, Orange County has a lower crime rate and a higher educational achievement level than California and also Southern California, as a whole. Furthermore, within Orange County, the City of San Clemente has a significantly lower crime rate and a school district with a somewhat higher educational achievement level than the county as a whole. Therefore, the CFD No. 90-2 Neighborhood Area and the City of San Clemente are regarded as being generally desirable from a socioeconomic perspective.

RESIDENTIAL DEVELOPMENT TRENDS/PATTERNS IN THE SOUTHEASTERLY PORTION OF ORANGE COUNTY

The southeasterly portion of Orange County has experienced a considerable amount of development activity during the past thirty years, as various Planned Communities, Business Parks, and Retail Centers have entered the marketplace in a systematic manner; the Planned Community of Talega is considered to be a sequential extension of this development pattern.



The development patterns in the southeasterly portion of Orange County (OC) have been influenced by two key factors:

- First, the pattern represents a systematic extension from the urbanized areas of central OC into the rural areas of southern OC as well as the cities located in the far southern portion of Orange County.
- Secondly, the Planned Communities in southern OC are accessed by Interstate 5, a major north-south freeway, as well as the completed northern portion of the Foothill Transportation Corridor (FTC), Route 241, a north-south toll road; additionally, the southern segment of the FTC (south of Oso Parkway) is expected to be completed during the next five+ years.

➤ Third, access to CFD No. 90-2 is immediately to the east of Interstate 5, by way of Avenida Vista Hermosa or Avenida Pico.

The types of development in southeasterly Orange County that have occurred or are expected to occur in the vicinity of CFD No. 90-2 (Talega) are as follows:

- ➤ Some seventeen miles to the northeast of CFD No. 90-2 is Rancho Santa Margarita, a conglomeration of various Planned Communities, Business Parks and Retail Centers, which, together contains some 15,000 housing units, 400+ business-office acres and 100+ commercial-retail acres. Most of this property has already been developed/marketed to final-users, and so these Planned Communities, Business Parks and Retail Centers are virtually build-out.
- Approximately thirteen miles to the northeast of CFD No. 90-2 is the Planned Community of Coto de Caza which features luxury housing in a golf course setting; it has completed the marketing of its some 4,000 homes.
- ➤ Mission Viejo, a Planned Community with some 30,000 homes, located some twelve miles north of CFD No. 90-2, entered the marketplace some 30 years ago and has completed the marketing of its residential projects and apartment complexes.
- ➤ Ladera Ranch, a Planned Community with some 8,100 homes, located some nine miles north of CFD No. 90-2, entered the marketplace in 1999 and, since then, has marketed some 7,500+ housing units in various residential projects and apartment complexes.
- Rancho Madrina, situated some four miles to the north of CFD No. 90-2, with some 120 homes recently entered the marketplace and so most of the homes are not yet sold.
- Approximately one mile to the north is the Planned Community of Forster Highlands with some 1,037 homes that entered the marketplace in mid-2000, and, since then, has closed escrows on almost all its homes.
- Additionally, some ten miles to the north-east are various Planned Communities that are proposed for future development; however, they have not yet obtained their planning approvals, and so they are not expected to enter the marketplace for five+ years.
- Finally, there are two new forthcoming Planned Communities in the vicinity of CFD No. 90-2; these are discussed on the following page.

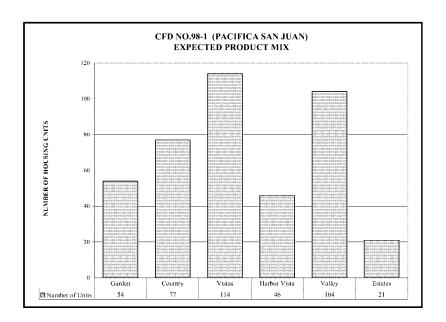
Therefore, within the context of the development in southeasterly Orange County, CFD No. 90-2 Talega represents a Planned Community that continues this development pattern.

POTENTIAL FORTHCOMING PROJECTS IN THE VICINITY OF CFD NO. 90-2

There are two projects which are expected to enter the marketplace during the foreseeable future that are situated in the vicinity of CFD No. 90-2; accordingly, their general characteristics are now discussed.

Pacifica San Juan

Pacifica San Juan, being developed by SunCal Companies, is located easterly of Interstate 5 near Camino Las Ramblas, is expected to have some 416 attached and single-family detached homes. These homes are anticipated to have living areas of some 3,012 square feet of living area, on the average, with a range of 1,800 to 6,000 sq.ft. These parcels/projects are expected to commence sales to builders by Spring 2006, with occupancies to homeowners commencing during the latter portion of 2006.



Marblehead Coastal

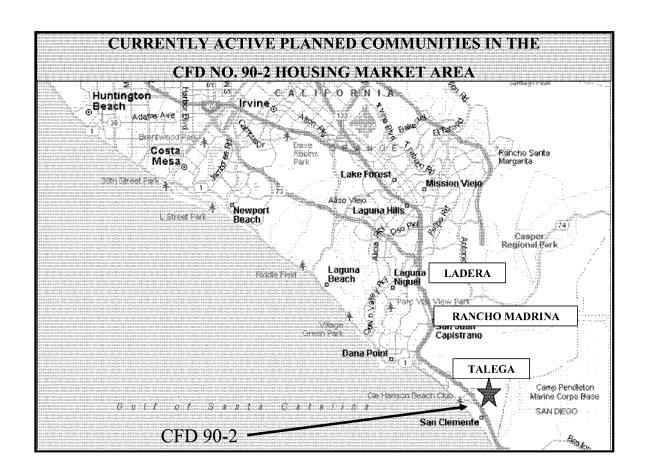
Marblehead Coastal, also being developed by SunCal Companies, is situated inland of Pacific Coast Highway near Pico Avenue, and it is expected to have 313 single-family detached homes. These are anticipated to have some 2,951 sq.ft. of living area, on the average, with a range of 1,612 to 4,625 sq.ft. The market entry date of the forthcoming projects has not yet been identified,

COMPETITIVE MARKET ANALYSIS OF THE PROJECTS IN THE CFD NO. 90-2 COMPETITIVE HOUSING MARKET AREA

The purpose of this section is to provide an overview of the currently active Planned Communities with for-sale housing in the CFD No. 90-2 Competitive Housing Market Area, southeasterly Orange County, and to compare these with the characteristics of the active projects in the Planned Community of CFD No. 90-2 (Talega).

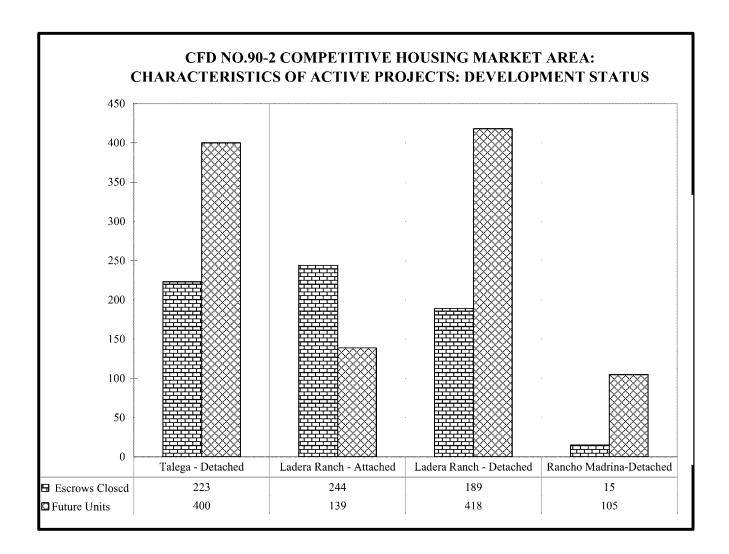
Competitive Market Analysis of CFD No. 90-2 by Planned Communities

The CFD No. 90-2 Competitive Housing Market Area currently has two comparable Planned Communities (PCs): Ladera Ranch with 14 active projects and Rancho Madrina with 2 active projects with for-sale housing. CFD No. 90-2 currently has eight active projects.



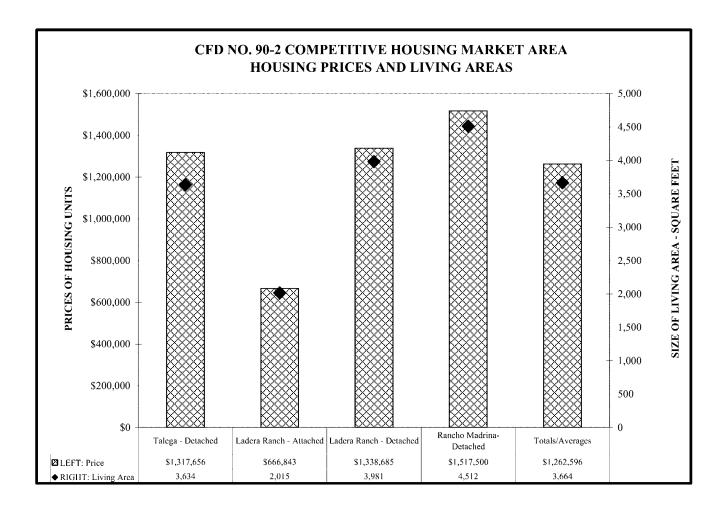
These PCs as well as the active projects in CFD No. 90-2 have a total of 24 projects with some 1,733 housing units of which 671 have had their escrows closed and so they are considered to be occupied; the distribution of these projects among the various PCs and CFD No. 90-2 is as follows:

- ➤ Talega-Detached: 8 active projects with 623 homes of which 223 are occupied.
- Ladera Ranch Attached: 3 active projects with 383 homes of which 244 are occupied.
- Ladera Ranch Detached: 11 active projects with 607 homes of which 189 are occupied.
- Rancho Madrina Detached: 2 active projects with 120 homes of which 15 are occupied.



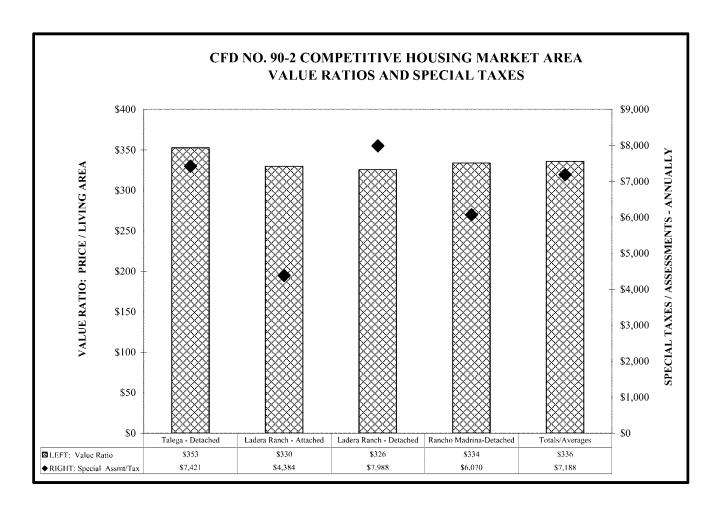
For the projects in the currently active PCs as well as the active projects in CFD No. 90-2, their prices amount to some \$1,262,596, as a whole, while their living areas are some 3,664 sq.ft., as a whole; accordingly, the prices and living areas are as follows:

- ➤ Talega Detached: Prices of \$1,317,656 for some 3,634 sq.ft. of living area.
- ➤ Ladera Ranch Attached: Prices of \$666,843 for some 2,015 sq.ft. of living area.
- Ladera Ranch Detached: Prices of \$1,338,685 for some 3,981 sq.ft. of living area.
- Rancho Madrina Detached: Prices of \$1,517,000 for some 4,512 sq.ft. of living area.



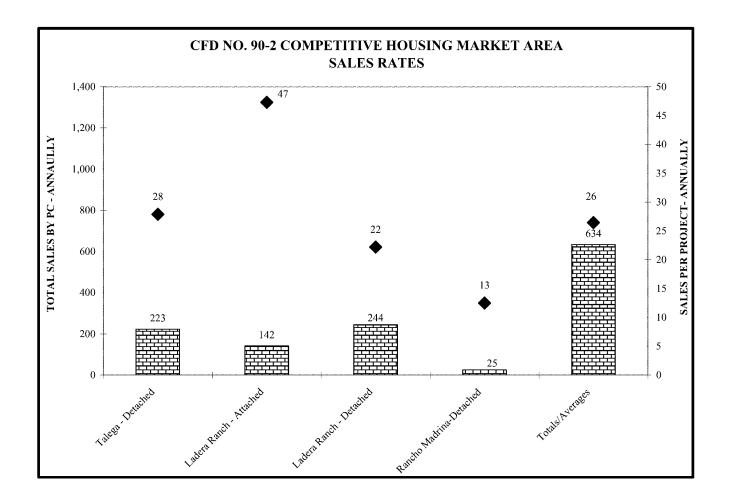
To compare the prices of the projects in these PCs as well as the active projects in CFD No. 90-2 their value ratios are utilized, the price per sq. ft. of living area, since this effectively makes adjustments for differences in their sizes of living areas. Accordingly, the value ratios amount to \$336 per sq. ft. of living area and their Special Taxes/Assessments amounts to some \$7,188/yr. (0.59% as a ratio to the housing prices); accordingly, the value ratios and Special Tax/Assessment characteristics are as follows:

- ➤ Talega Detached: Value Ratio of \$353 and Special Taxes of \$7,421/yr. (0.59%).
- ➤ Ladera Ranch Attached: Value Ratio of \$330 and Special Taxes of \$4,384/yr. (0.67%).
- ➤ Ladera Ranch Detached: Value Ratio of \$326 and Special Taxes of \$7,988/yr. (0.60%).
- ➤ Rancho Madrina Detached: Value Ratio of \$334 and Special Taxes of \$6,070/yr. (0.40%).



These PCs, with their 24 active projects, have an estimated sales rate of some 634 homes per year, for an average of some 26 units per project per year; the distribution of these sales among the various PCs is as follows:

- ➤ Talega Detached: 8 projects with total sales of 223 homes annually, some 28 per project.
- Ladera Attached: 3 projects with total sales of 142 homes annually, some 47 per project.
- Ladera Detached: 11 projects with total sales of 244 homes annually, some 22 per project.
- Rancho Madrina: 2 projects with total sales of 25 homes annually, some 13 per project.



25

															Special	ial
Project	Project	Builder	Product			Project Size and Sales	- 1		Housing Prices.			Size of Living Area		value	Assessments/Taxes	ıts/Laxes
Locations			Туре	Total	Escrows	Future	Sales Rate/Yr,	Lower	Average	Upper	Lower	Average	Upper	Ratio	Amount/ Year	Ratio/ Price
Talega - Detached	Caprizi	Standard Pacific	5,500	104	23	18	32	8770,000	\$787.500	\$805.000	2.341	2,406	2.471	\$327	\$5.513	0.70%
Talega - Detached	Portomarin	Standard Pacific	5,500	7.5	01	65	25	2886,000	\$915.500	\$945,000	2,610	2,746	2.882	\$333	\$5.493	0.60%
Talega - Detached	Vittoria	Standard Pacific	7,000	61	2.5	4	38	8895.000	\$928.000	8961.000	2.686	2.896	3,106	\$320	\$6.032	0.65%
Talega - Detached	Stella Mare	Standard Pacific	7,100	107	0	201	25	\$1.015.000	81.105.000	81.195.000	3,048	3,257	3,465	6883	\$6.630	0.60%
Talega - Detached	Catania	Standard Pacific	7,000	109	£	45	40	\$1,060,000	\$1,159,250	\$1,258,500	2.873	3.187	3,501	\$364	\$6.956	0.60%
Talega - Detached	Cazadero	Shea Homes	7,400	72	33	41	30	\$1,200,000	\$1,225,000	\$1,250,000	3,753	3.872	3,990	\$316	\$7,350	0.60%
Talega - Detached	Careyes	Brookfield	000'11	42	38	4	23	51.670.000	\$1.853,500	\$2,037,000	4,448	4.843	5.237	\$383	\$11.121	%09'0
Talega - Detached	Lucia	Laing Luxury Homes	15,000	53	0	53	01	\$2.487.000	\$2.567.500	\$2,648,000	5.685	5.870	6.055	5437	S10.270	0.40%
Ladera Ranch - Attached	Briar Rose	MBK Homes	Attached	152	86	68	50	\$526,490	\$548.540	\$570,590	1.617	1.689	1,761	\$325	\$3.840	0.70%
Ladera Ranch - Attached	Branches	Standard Pacific	Attached	149	601	40	09	\$579,500	2601.500	\$623,500	1,617	1.851	2,085	\$325	\$4,211	0.70%
Ladera Ranch - Attached	Castellina	Centex Homes	Attached	82	42	40	32	\$784,240	\$850.490	\$916,740	2.075	2.505	2.934	5340	\$5.103	0.60%
Ladera Ranch - Detached	Amarante I & II	Lyon Homes	9.000	7.1	48	23	30	8971,990	\$1.055.995	\$1,140,000	2,748	3.283	3.817	\$292	\$6.336	0.60%
Ladera Ranch - Detached	Segovia	Pardee Homes	8,000	59	0	99	30	\$1,068,550	\$1,103,450	\$1,138,350	3,166	3,351	3,536	\$316	\$6,621	0.60%
Ladera Ranch - Detached	Montancz	Centex Hornes	8.000	65	0	65	35	\$1.067.000	\$1.122.500	\$1.178,000	3,292	3,569	3.846	\$315	\$6.735	%09'0
Ladera Ranch - Detached	Bellataire I & II	sawoH uoxT	10.000	75	43	32	30	S1.160.000	\$1.210.000	\$1.260.000	3.810	3.980	4.150	\$288	\$7.865	0.65%
Ladera Ranch - Detached	Meriden	Warmington	8.000	29	23	44	17	81.189.900	\$1.269,900	\$1.349,900	3.568	3.813	4.057	\$316	88.88	0.70%
Ladera Ranch - Detached	Las Picdras	Standard Pacific	000'6	35	01	25	20	\$1,200,000	\$1,331,000	\$1,462,000	2,781	2,981	3,181	\$446	\$5.990	0.45%
Ladera Ranch - Detached	Sherborne	Shea Homes	8.500	54	41	13	38	\$1,297,990	\$1.350.490	\$1,402,990	4,073	4,444	4.815	1828	\$8.103	0.60%
Ladera Ranch - Detached	Arboledo	Warmington	10.000	62	0	62	25	\$1.252.000	\$1.350.500	\$1.449,000	3.600	3.900	4.200	\$346	\$8.103	0.60%
Ladera Ranch - Detached	Capistrano	K. Hovnanian	8.500	35	0	35	15	\$1.450,990	\$1.512.995	\$1.575,000	3,999	4.350	4,700	\$348	\$9.078	0.60%
Ladera Ranch - Detached	San Donado	Laing	005.01	23	12	11	14	\$1,505,000	\$1,585,000	\$1,665.000	4,137	4,641	5.145	\$316	\$9.510	0.60%
Ladera Ranch - Detached	Skyc Isle	K. Hovnanian	11.000	61	12	49	10	\$1.591,414	\$1.833.702	\$2.075.990	5.080	5,483	5.886	\$316	\$10,635	0.58%
Rancho Madrina-Detached	Floralisa	William Lyon	8.800	80	51	99	15	\$1.310.000	\$1.360.000	\$1.410.000	3.363	3.873	4.383	1585	\$5,440	0.40%
Rancho Madrina-Detached	Estrella Rosa	William Lyon	12,000	40	0	40	10	\$1.625.000	\$1.675.000	\$1,725,000	4.800	5,150	5.500	\$316	\$6.700	0.40%
Statistical Summary																
		Sales / Year														
Talega - Detached		87	8	623	223	400	223	\$1,247,875	\$1.317,656	\$1,387,438	3,431	3.634	3.838	8383	\$7,421	0.59%
Ladera Ranch - Attached		47	3	383	244	139	142	\$630,077	\$666.843	\$703.610	1,770	2.015	2.260	\$330	\$4.384	0.67%
Ladera Ranch - Detached		22	11	209	681	418	244	\$1,250,439	\$1,338,685	\$1.426.930	3,659	3,981	4.303	\$326	87.988	0.60%
Rancho Madrina-Detached		٤١	2	120	\$1	501	25	51.467.500	\$1.517,500	\$1,567,500	4,082	4.512	4,942	\$334	86.070	0.40%
Totak: Averages		26	24	1.733	129	1.062	634	\$1,190,128	\$1.262.596	\$1.335.065	3.382	3.664	3.946	\$336	\$7.188	0.59%

ESTIMATED ABSORPTION SCHEDULES FOR THE PRODUCTS/PROJECTS IN CFD NO. 90-2 (TALEGA)

The purpose of this section is to estimate the absorption schedules for the active/forthcoming residential products/projects in CFD No. 90-2; accordingly, this is based upon a consideration of the following:

First, the potential demand schedules for the residential products/projects for CFD No. 90-2 were derived, based upon a consideration of the following:

- ➤ The growth prospects for the Southern California Market Region, in general, and Orange County, in particular.
- ➤ How much of this growth the CFD No. 90-2 Market Area, is expected to capture, in particular.
- > The proportion of the Market Area demand that is expected to be captured by the projects in CFD No. 90-2, based upon an evaluation of their competitiveness in the marketplace.
- For currently active projects in the CFD No. 90-2, their recent sales rates are taken into consideration; additionally, the expected changes in the current sales rate due to anticipated higher levels of mortgage rates during the foreseeable future are also considered.

Thus, the result of this analysis is the POTENTIAL demand for the residential products/projects in CFD No. 90-2.

Next, the ability of the residential products/projects in CFD No. 90-2 to respond to this demand is estimated. Accordingly, the infrastructure development schedule for the residential products/projects was obtained from Talega Associates, LLC. Specifically, this represents, from a time perspective, when the products will have the infrastructure in place that is required to support their development. So, the result of this analysis is the INFRASTRUCTURE DEVELOPMENT of the residential properties in CFD No. 90-2, and this reflects their ability to respond to the demand in the marketplace.

Then, based upon a consideration of the POTENTIAL demand and the INFRASTRUCTURE DEVELOPMENT, the absorption rate for the residential products/projects in the various market segments are calculated, from the year in which the products/projects are expected to enter the marketplace, and continuing thereafter on an annualized basis, until all of the units are occupied.

The application of this algorithm results in the absorption schedules for the products/projects in CFD No. 90-2 (Talega); absorption represents the structure being constructed as well as being occupied by households.

Accordingly, the estimated absorption schedules for the 727 remaining homes in CFD No. 90-2 are as follows:

Currently Active Projects:

- ➤ Caprizi by Standard Pacific has 104 single-family detached homes that are priced at some \$787,500 for some 2,406 sq.ft. of living area for a value ratio (price/living area) of \$327, on the average; thus far, 23 of these homes have closed escrow, and so there are another 81 remaining for future occupancies. These are expected to be absorbed at a rate of 30 homes in 2006, another 35 homes in 2007 and then the remaining 16 homes in 2008.
- ▶ Portomarin by Standard Pacific has 75 single-family detached homes that are priced at some \$915,500 for some 2,746 sq.ft. of living area for a value ratio of \$333, on the average; thus far, 10 of these homes have closed escrow, and so there are another 65 remaining for future occupancies. These are expected to be absorbed at a rate of 25 homes in 2006, another 30 homes in 2007 and then the remaining 10 homes in 2008.
- ➤ Vittoria by Standard Pacific has 61 single-family detached homes that are priced at some \$928,000 for some 2,896 sq.ft. of living area for a value ratio of \$320, on the average; thus far, 57 of these homes have closed escrow, and so there are only 4 remaining for future occupancies. The 4 remaining homes are expected to be absorbed in 2006.
- ➤ Stella Mare by Standard Pacific has 107 single-family detached homes that are priced at some \$1,105,000 for some 3,257 sq.ft. of living area for a value ratio of \$339, on the average; thus far, none of these homes have closed escrow, and so all 107 are remaining for future occupancies. These are expected to be absorbed at a rate of 20 homes in 2006, 25 homes in 2007, 30 homes in 2008 and then the remaining 32 homes in 2009.
- ➤ Catania by Standard Pacific has 109 single-family detached homes that are priced at some \$1,159,250 for some 3,187 sq.ft. of living area for a value ratio of \$364, on the average; thus far, 64 of these homes have closed escrow, and so there are another 45 remaining for future occupancies. These are expected to be absorbed at a rate of 40 homes in 2006 and then the remaining 5 homes in 2007.
- ➤ Cazadero by Shea Homes has 72 single-family detached homes that are priced at some \$1,225,000 for some 3,872 sq.ft. of living area for a value ratio of \$316, on the average; thus far, 31 of these homes have closed escrow, and so there are another 41 remaining for future occupancies. These are expected to be absorbed at a rate of 30 homes in 2006 and then the remaining 11 homes in 2007.
- ➤ Careyes by Brookfield has 42 single-family detached homes that are priced at some \$1,853,500 for some 4,843 sq.ft. of living area for a value ratio of \$383, on the average; thus far, 38 of these homes have closed escrow, and so there are another 4 remaining for future occupancies. The 4 remaining homes are expected to be absorbed in 2006.
- Lucia by Laing Luxury has 53 single-family detached homes that are priced at some \$2,567,500 for some 5,870 sq.ft. of living area for a value ratio of \$437, on the average; thus far, none of these homes have closed escrow, and so all 53 are remaining for future occupancies. These are expected to be absorbed at a rate of 8 homes in 2006, 12 homes in 2007, 14 homes per year in 2008 and also 2009 and then the remaining 5 homes in 2010.

Forthcoming Projects:

- ➤ Sabella by Pulte is expected to have 75 single-family detached homes that are anticipated to be priced at some \$771,000 for some 2,300 sq.ft. of living area for a value ratio (price/living area) of \$335, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007. These are expected to be absorbed at a rate of 30 homes in 2007, another 30 homes in 2008 and then the remaining 15 homes in 2009.
- ➤ **Bella Vista** by Manning Homes is expected to have 14 single-family detached homes that are anticipated to be priced at some \$1,190,000 for some 3,500 sq.ft. of living area for a value ratio of \$340, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007. These are expected to be absorbed at a rate of 14 homes in 2007.
- ➤ Carillon by Standard Pacific is expected to have 84 single-family detached homes that are anticipated to be priced at some \$1,295,000 for some 3,700 sq.ft. of living area for a value ratio of \$350, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007. These are expected to be absorbed at a rate of 25 homes per year during 2007 to 2009 and then the remaining 9 homes in 2010.
- ➤ Ravenna by John Laing is expected to have 42 single-family detached homes that are anticipated to be priced at some \$1,476,000 for some 4,100 sq.ft. of living area for a value ratio of \$360, on the average, and this project is expected to commence occupancies during 1st-quarter of 2007. These are expected to be absorbed at a rate of 20 homes in 2007 and then the remaining 22 homes in 2008.
- Alora by William Lyon is expected to have 49 single-family detached homes that are also anticipated to be priced at some \$1,476,000 for some 4,100 sq.ft. of living area for a value ratio of \$360, on the average, and this project is expected to commence occupancies during 3rd-quarter of 2007. These are expected to be absorbed at a rate of 20 homes in 2007, another 20 homes in 2008 and then the remaining 9 homes in 2009.
- Alta by Standard Pacific is expected to have 63 single-family detached homes that are anticipated to be priced at some \$2,000,000 for some 5,000 sq.ft. of living area for a value ratio of \$400, on the average, and this project is expected to commence occupancies during 3rd-quarter of 2007. These are expected to be absorbed at a rate of 12 homes in 2007, 14 homes in 2008, 16 homes in 2009 and then the remaining 21 homes in 2010.

Therefore, the 727 remaining homes in CFD No. 90-2 are expected to be absorbed during 2006 to 2010 time period. The absorption rate starts at 161 homes during 2006, increases to 239 homes in 2007 as more projects enter the marketplace, and then declines to 181 homes in 2008, as some of the projects are closed-out, 111 homes in 2009 and then the remaining 35 homes in 2010 as the final projects are closed-out.

The estimated absorption schedules for the active/forthcoming residential projects in CFD No. 90-2 are subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by the developer/builders.

The estimated absorption schedules for the active/forthcoming residential projects in CFD No. 90-2 do not require the completion of the Foothill South Toll Road.

For additional information on the estimated absorption schedules for the residential products in CFD No. 90-2 (Talega), please refer to the following table and graph.

Please refer to the section following the tables and graph of the estimated absorption schedules for the forthcoming residential products in CFD No. 90-2 for a discussion of the "Potential Financial Risk Factors Underlying Land Secured Financings in Southern California."

Empire Economics

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ESTIMATED ABSORPTION SCHEDULES ACTIVE/FORTHCOMING PROJECTS IN CFD NO. 90-2 (TALEGA)

. MARCH 20, 2006 - SUBJECT TO REVISION

			CC	CURRENTLY ACT	TIVE PROJECTS	TS				4	ORTHCOME	FORTHCOMING PROJECTS			•	
Projects >>>	Caprizi	Portomarin	Vittoria	Stella Mare	Catania	Cazadero	Careyes	Lucia	Sabella	Bella Vista	Carillon	Ravenna	Alora	Alta	Annually	Cumulatively
Builders>	Standard	Standard	Standard	Standard	Standard	Shea Homes	Brookfield	Laing	Pulte	Manning	Standard	John	William	Standard		
	Pacific	Pacific	Pacific	Pacific	Pacific			Luxury		Homes	Pacific	Laing	Lyon	Pacific		
Tract Numbers	67991	91991	16519	51991	89£91	21591	16370	16335	16631	16546	16336	02591	56291	16630		
			13935		16369			16614								
Lot Sizes	5,500	5,500	7,000	7,100	7,000	7,400	11,000	15,000	N/A	N/A	N/A	N/A	N/A	N/A		
Marketing Status:																
Total	104	75	61	107	109	72	42	53	7.5	14	84	42	49	63	950	
Occupied	23	10	57	0	79	18	38	0	0	0	0	0	0	0	223	
Forthcoming	81	59	4	107	45	41	4	53	75	14	84	42	49	63	727	
Base Housing Prices			Α¢	Actual Market Prices	ses					Prices Estimate	d by Empire Ec	Prices Estimated by Empire Economics - Subject to Revision	ect to Revision			
Lower	000,0778	2886,000	8895,000	\$1,015,000	\$1,060,000	81,200,000	\$1,670,000	\$2,487,000								
Average	8787,500	8915,500	8928,000	\$1,105,000	\$1,159,250	81,225,000	\$1,853,500	\$2,567,500	S771,000	S1,190,000	\$1,295,000	81,476,000	\$1,476,000	\$2,000,000	\$1,260,494	
Upper	\$805,000	8945,000	8961,000	\$1,195,000	\$1,258,500	81,250,000	\$2,037,000	\$2,648,000								
Living Areas									Livir	ng Areas provid	ed by Talega As	sociates, LLC -	Living Areas provided by Talega Associates, LLC - Subject to Revision	sion		
Lower	2,341	2,610	2,686	3,048	2,873	3,753	4,448	5,685								
Average	2,406	2,746	2,896	3,257	3,187	3,872	4,843	5,870	2,300	3,500	3,700	4,100	4,100	5,000	3,518	
Upper	2,471	2,882	3,106	3,465	3,501	3,990	5,237	6,055								
Value Ratio: Price/Living Area	\$327	\$333	5320	\$339	8364	9188	5383	\$437	\$335	S340	\$350	8360	0988	\$400	\$358	
Commence Occupancies	Active	Active	Active	Active	Active	Active	Active	Active	1st-2007	1st-2007	1st-2007	1st-2007	3rd-2007	3rd-2007		
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					200 200 200 200 200 200 200 200 200 200		0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	000 000 000 000 000 000 000 000 000 00				3 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0				
Absorption/Occupancies																
2006	30	25	4	20	40	30	4	8	0	0	0	0	0	0	161	161
2007	35	30	0	25	5	11	0	12	30	14	25	20	20	12	239	400
2008	16	10	0	30	0	0	0	14	30	0	25	22	20	14	181	581
2009	0	0	0	32	0	0	0	14	15	0	25	0	6	91	111	692
2010	0	0	0	0	0	0	0	5	0	0	6	0	0	21	35	727
Total	81	99	4	107	45	41	4	53	75	14	84	42	49	63	727	

POTENTIAL "FINANCIAL" RISK FACTORS UNDERLYING THE CREDIT QUALITY AND BOND SIZING FOR LAND SECURED FINANCINGS IN SOUTHERN CALIFORNIA

There has recently been a substantial amount of discussion on the potential for a housing market bubble, including remarks of "froth in some local markets" by the former Federal Reserve Board Chairman, Alan Greenspan, based primarily upon the use of exotic mortgage structures; these remarks have dealt with the housing market on a national as well as a regional level. However, developing Planned Communities have characteristics that differentiate them from broader markets: they represent the marketing of new homes to purchasers at current prices that exclusively utilize current mortgage rates and financing structures, and they are also concentrated in particular geographical locations.

The purpose of this section is to focus specifically on the potential implications of the recent use of adjustable rate and creative financing techniques that are presently available for home purchasers on the credit quality underlying land-secured financings in Southern California.

There has been a fundamental shift in the driving force underlying the recent rates of housing price appreciation, from the historical role of employment growth as the driving force to the recent role of adjustable rate and creative financing techniques as the driving force. These financial factors have been the primary driving force underling the extraordinary rate of housing price appreciation in Southern California of more than 75% since January 2002. Consequently the current levels of housing prices and land values are subject to potentially substantial downward adjustments, due to mortgage rate resets (as mortgages are adjusted from teaser rates to market rates) as well as higher short-term rates (due to rate hikes by the Federal Reserve Board). These adjustments, in turn, may cause a softening in housing prices and land values that could adversely impact the credit quality underlying land-secured financings.

Creative financing refers to the use of loan structures other than fixed-rate or 1 year adjustable, including the following: interest only, payment option loans as well as initial teaser rates (below market rates that are offered only for a limited time period) with very low initial payments that result in negative amortizations (higher principal balance), less stringent lending standards such as low/no documentation, and much higher mortgage payment to income ratios, among others.

Structural Shift of Factors Underlying Housing Price Appreciation

Since January 2002 there has been a fundamental shift in the primary factor underlying housing price appreciation in Southern California; the primary driving force was initially declining mortgage rates as well as the extensive use of adjustable and creative financing as compared to the traditional driving force of strong employment growth.

Specifically, the term "driving force" is utilized herein to refer to a SIGNIFICANT CHANGE in a major economic/financial factor that has STRONG DISCERNIBLE IMPACT on housing prices.

- ➤ January 2002 through June 2003: The rates on fixed 30-year mortgage loans declined to recent historic lows in June 2003, and were a driving force underlying the rate of housing price appreciation of some 13.4% on an annualized basis; however, since June 2003, fixed rate mortgages have been ABOVE their recent historic lows.
- ➤ July 2003 to March 2004: As fixed mortgage rates rose, purchasers shifted to adjustable rate mortgages which offered significantly lower rates, and these were a driving force underlying the rate of housing price appreciation of some 18.8% on an annualized basis; however, since March 2004, adjustable rates have been ABOVE their recent historic lows.
- ➤ April 2004 Presently: As adjustable mortgage rates rose due to the Federal Reserve Board increasing the federal funds rate, home buyers shifted to various types of creative financial structures, and these were a driving force underlying the rate of housing price appreciation of some 24.1% on an annualized basis; however, since Fall-2005, some lenders have started to tighten their qualification standards.

Potential Adjustments for Mortgage Payments

The extensive use of adjustable rate mortgages and also creative mortgage structures since June 2003 means that such homeowners have monthly mortgage payments which are subject to significant upward adjustments due to automatic mortgage rate resets as well as potentially higher interest rates:

- ➤ Mortgage Resets (Stable Mortgage Rates) reflect the changes in mortgage payments that households with adjustable and creative mortgage structures will incur as the initial "teaser" rates are realigned with the current "market" rates. The dollar volume of mortgages subject to resets for the United States mortgage market is expected to increase from \$83 billion in 2005 to more that \$1 trillion in 2007.
- ➤ **Higher Mortgage Rates** would result in even higher monthly payments for homeowners with adjustable rate mortgages as well as creative mortgage structures; the increase in their mortgage payments depends upon the degree to which short-term rates rise.

The recent use of adjustable rate and creative financing techniques by home purchasers is <u>especially significant for residential land secured financings</u>, since these financings are predominately for developing Planned Communities that represent the marketing of new homes to purchasers at current prices that exclusively utilize current mortgage rates and financing structures and they are also concentrated in particular geographical locations.

Specific Impacts of Rate Resets and Higher Mortgage Rates on the Land Secured Credit Quality

To the extent that mortgage payments rise due to various possible combinations of automatic mortgage rate resets as well as potentially higher short-term rates that directly impact adjustable rate and creative mortgages, then the credit quality underlying recent land-secured financings may be diminished in the following ways:

- ➤ Lower housing prices resulting in a higher Special Tax to Housing Price Burden for homeowners, possibly in excess of the Issuer's policy of a maximum total tax burden, typically some 1.8% to 2.0% of the initial sales prices, even though these maximums may have been satisfied at the time that the Special Taxes were established.
- ➤ Significantly lower land values resulting in a reduced Value/Lien ratio, possibly below the Issuer's policy of typically some 3 to 1 or 4 to 1 when the bonds are sold, thereby diminishing the security for bond holders.

(The Appraisal for the Bond Issue is valid only for the stated Date of Value; it is not meant to be a prediction of future values.)

➤ Higher levels of Special Tax delinquencies as monthly payments of owners increase resulting in diminishing the maximum Special Tax to the bond debt service coverage ratios for bond holders that may adversely impact the Issuer's ability to meet the debt service payments in a timely manner, possibly resulting in the use of the bond reserve fund. Adjustable rate mortgages (some 79% of current mortgages) have significantly higher delinquency rates than fixed rate mortgages; additionally, homeowners that use adjustable rate mortgages also have higher loan to value ratios as well, some 90% as compared to homeowners with fixed rate loans, some 81%.

Accordingly, in arriving at these conclusions, this section systematically discusses the following:

- 1. Recent Shift in the Primary Factors Underling Housing Price Appreciation
- 2. Financial Factors "Driving" Recent Housing Price Appreciation
- 3. Mortgage Rate Resets: Realignment of Adjustable/Creative Loans to Market Rates
- 4. Mortgage Rate Increases: Potential for Further Federal Reserve Board Rate Hikes
- 5. Specific Impacts of Higher Mortgage Rates on the Land-Secured Credit Quality

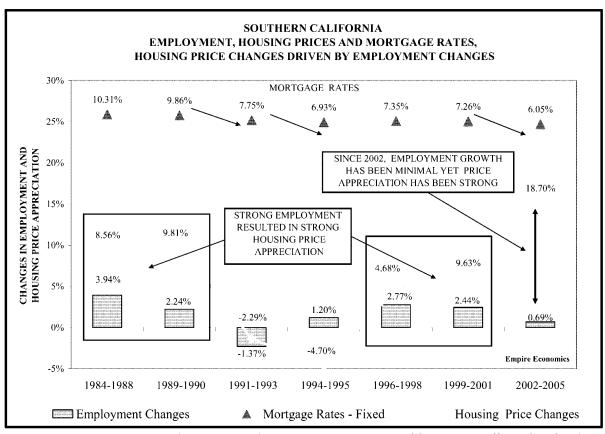
This section should **not** be construed as a forecast that mortgage rates will rise significantly in the foreseeable future; rather, it sets forth the POTENTIAL risk factors that mortgage rate resets as well as higher mortgage rates along with the near-term policy of the Federal Reserve Board would have on the credit quality underlying land-secured financings. Empire Economics acknowledges that financial markets, due to their high degree of economic efficiency and complexity, are difficult to forecast, and, as such, the use of the term "Potential" Risk Factor is regarded as being appropriate.

1. Recent Shift in the Primary Factors Underlying Housing Price Appreciation

The primary factors underlying housing price appreciation in Southern California since January 2002, declining mortgage rates as well as the extensive use of adjustable and creative financing, represent a fundamental shift from the traditional factor, employment growth.

Specifically, the term "driving force" is utilized herein to refer to a SIGNIFICANT CHANGE in a major economic/financial factor that has STRONG DISCERNIBLE IMPACT on housing prices.

- During 1984-2001 housing price appreciation was driven by employment growth, along with accommodating financial factors, such as stable or somewhat declining mortgage rates. During this time period financial factors played only a secondary role: for instance, during 1991-1993 when employment decreased, housing prices declined, even though mortgage rates fell by more than two percentage points from their 1989-1990 levels.
- ▶ However, since January 2002, as housing prices escalated at strong rates, the primary fundamental factor, employment growth, has experienced only minimal growth, less than 1% per year, on the average. Instead, housing price appreciation has been driven primarily by financial factors, particularly the use of adjustable rate mortgages and creative financing techniques.



Sources: Empire Economics, Employment Development Department, Freddie Mac & Office of Federal Housing

During 2002 to 2005 financial factors have been the strong driving force underlying the rates of housing price appreciation. Specifically, the rates of housing price appreciation have been generally similar among all of the Southern California counties, despite their differences in geographic location, employment growth and housing supply.

- ➤ The rates of employment growth for the counties varied substantially during 2002 to 2005, from a low of -1.15% per year for Los Angeles County to a high of 4.60% per year for Riverside-San Bernardino counties.
- ➤ The supply of new housing has also exhibited a wide variation during 2002 to 2005 as compared to 1999-2001, from declines of -26% in Ventura County and -14% in Orange County to increases of 80% in Riverside-San Bernardino counties.

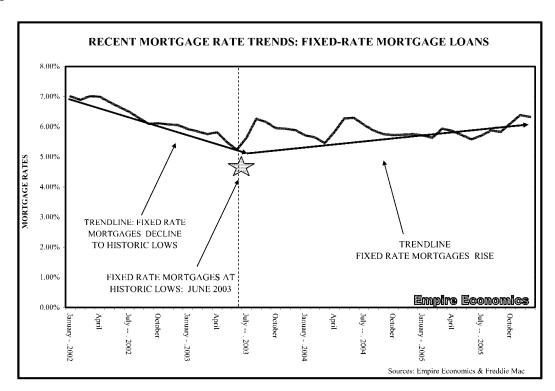
Therefore, the financial factors have been so strong that they have effectively overshadowed other possible explanatory factors such as geographical location, employment growth and housing supply.

2. Financial Factors "Driving" Recent Housing Price Appreciation in Southern California

The particular factors that have been the driving forces underlying recent strong rates of housing price appreciation in Southern California during January 2002 through 2005 are now discussed. Specifically, the factors which have driven housing prices since January 2002 started with fixed mortgage rates declining to recent historic lows, then a shift to adjustable rate mortgages, and, most recently, a shift to "creative" mortgage structures.

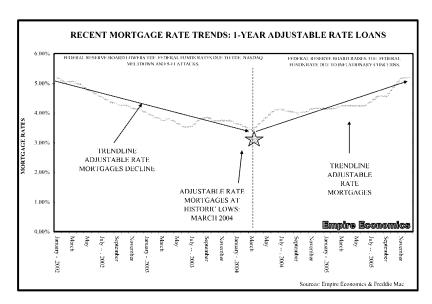
January 2002 to June 2003: Prices Driven by Declining Fixed Rates; Fixed Rates Now Higher

- Fixed-rate 30-year mortgage loans declined from 7.00% in January 2002 to a low of 5.23% in June 2003, and were a driving force underlying the rate of housing price appreciation of some 13.4% on an annualized basis.
- ➤ Since June 2003, rates on fixed rate mortgages have been ABOVE their recent historic lows and, as such, they are <u>no longer</u> considered to be a driving force underlying housing price appreciation.

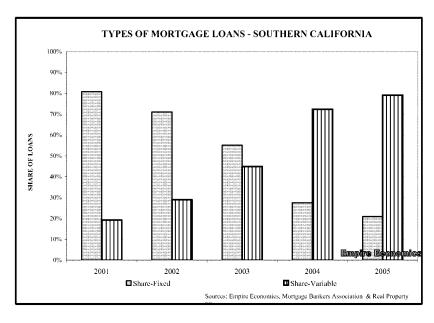


July 2003 to March 2004: Prices Driven by Adjustable Rate Loans; Adjustable Rates Higher

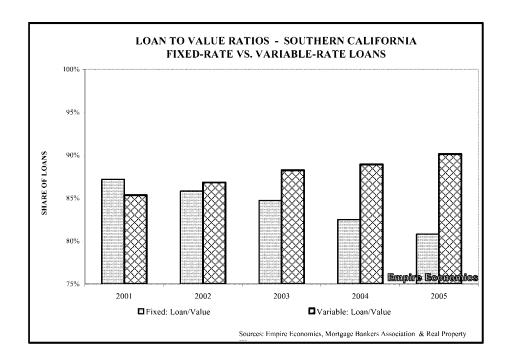
- > Starting in July 2003, as rates on fixed rate mortgages rose, households shifted to adjustable rate mortgages which offered favorable terms, due to the Federal Reserve Board maintaining a low federal funds rate, and these attained a recent historic low of 3.41%. During the July 2003 to March 2004 time period, adjustable rates were significantly below fixed rates of by some 215 basis points. The use of adjustable rates were a driving force underlying the rate of housing price appreciation of some 18.8% on an annualized basis.
- ➤ Since March 2004, the rates on adjustable rate mortgages have been ABOVE their recent historic lows, and, as such, they are <u>no longer</u> considered to be a driving force underlying housing price appreciation.



For Southern California, the percentage of adjustable rate loans has risen dramatically, from 19% in 2001 to 79% during 2005; conversely, fixed rate loans have decreased from 81% in 2001 to only 21% in 2005. Additionally, each of the Southern California counties exhibited a similar pattern in the shift from fixed-rate to adjustable rate mortgages as well.



Furthermore, for Southern California, the ratio of the mortgage loans (first and seconds) to the housing purchase prices during 2001 to 2005 has risen for homeowners with adjustable rate mortgages as compared to homeowners with fixed-rate loans. For homeowners with adjustable rate loans, the ratio of their loans to the purchase price of the homes has risen from 85% in 2001 to 90% in 2005, a gain of five percentage points. While for homeowners with fixed-rate mortgages the ratio of their loans to the purchase price of their homes has declined from 87% in 2001 to 81% in 2005, a decrease of six percentage points. So, homeowners with adjustable rate mortgages have substantially higher amounts of mortgage debt (90%) as compared to homeowners with fixed rate mortgages (81%).

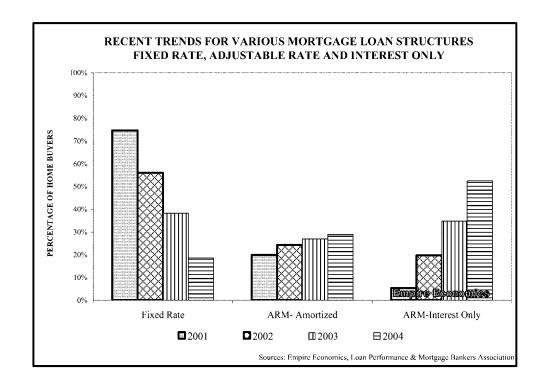


April 2004 to Present: Prices Driven by Shifting to Creative Loan Structures:

Since April 2004, as adjustable rates rose due to the Federal Reserve Board increasing the federal funds rate, home buyers shifted to various types of creative financial structures. These have been the driving force underlying the rate of housing price appreciation of some 24.1% on an annualized basis.

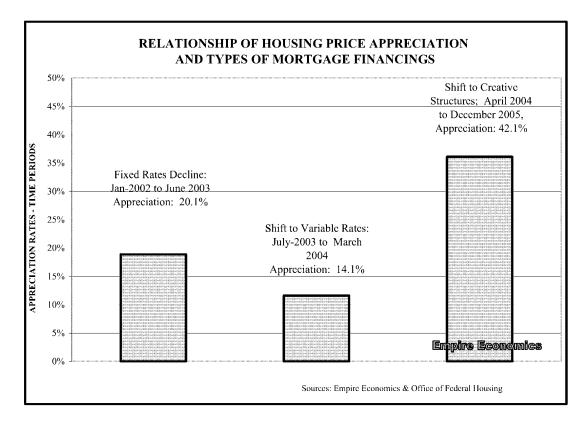
Creative financing refers to the use of loan structures other than fixed-rate or 1 year adjustable, including the following: interest only, payment option loans as well as initial teaser rates such as 1% for the first year that results in negative amortizations (higher principal balance), less stringent lending standards such as low/no documentation, and much higher mortgage payment to income ratios, among others.

During the 2001 to 2004 time period, for the United States as a whole, there has been a dramatic shift from fixed rate to adjustable rate loans: fixed rate mortgage loans declined from 75% in 2001 to only 19% in 2004. Adjustable rates that were amortized (interest and principal) rose from 20% to 29% while adjustable rates that are interest only (no reduction of principal) rose dramatically, from 5% in 2001 to 53% in 2004.



Conclusions

In conclusion, since January 2002, the primary driving force underlying housing price appreciation has been households initially taking advantage of recent historically low fixed rates through June 2003, then a shift to adjustable rate mortgages through March 2004, and finally, since then, the use of creative financing structures. Specifically, for the same monthly mortgage payment, the use of lower mortgage rates and creative mortgage structures has bolstered housing prices substantially since January 2002.



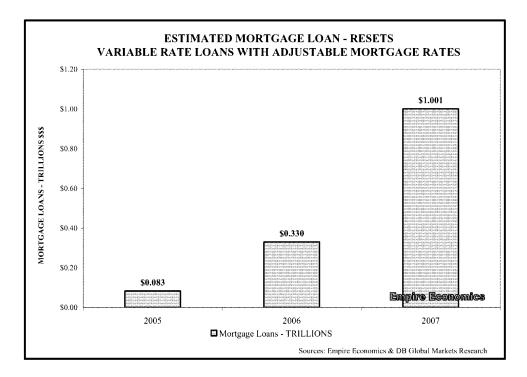
3. Mortgage Rate Resets: Realignment of Adjustable/Creative Loans to Market Rates

There may be some softness in housing prices and land values even if mortgage rates remain stable during the foreseeable future, as households with various types of "adjustable rate" and "creative" debt structures have their initial teaser rates realigned to the current market rates.

The resets are expected to generally result in higher monthly payments for homeowners since both the fixed as well as adjustable rate loans attained their recent historical lows in June 2003 and March 2004, respectively, and, since then, these rates have moved upwards:

- Fixed Rate Loans were recently at some 6.32%, some 109 basis points above their recent historic low.
- Adjustable Rate Loans were recently at some 5.22%, some 181 basis points above their recent historic lows.

With regard to the amount of mortgages that are subject to such resets, based upon data for the United States mortgage market as a whole, these are expected to rise dramatically, from some \$0.83 billion in 2005 to more that \$1.0 trillion in 2007.



The specific types of resets that may occur for adjustable rate and creative loan structures as rates are realigned with the marketplace are as follows:

Adjustable Rate Mortgages are expected to have upward reset adjustments to their monthly payments as a result of the Federal Reserve Board's policy since June 2004 which has caused the short end of the yield curve to rise significantly. The one-year adjustable loans, which were at their recent historic lows in March 2004, have started to have higher monthly payments, and such loans are now some 181 basis points above their cyclical lows.

For instance, a household that entered into an adjustable rate loan in March 2004 with a rate of 3.41% would encounter an approximate adjustment in March 2005 to a rate of 4.23%. This represents an increase of some 82 basis points which results in the household's mortgage payment rising by some 24%. So, for a household with a monthly mortgage payment of some \$2,000 per month, their payment would increase to some \$2,480 per month.

➤ Creative Mortgage Structures will undergo reset adjustments over time as the starter teaser rates are adjusted to their market rates. Since creative mortgages are typically based upon short-term rates and also have further adjustments due to teaser rates, then the mortgage payments of such households may rise by much more than for adjustable rate mortgages.

So, households with adjustable and creative mortgage structures will encounter higher mortgage payments as their initial teaser rates are realigned to the market rates which have significantly higher mortgage payments due to the recent hikes of the federal funds rate by the Federal Reserve Board.

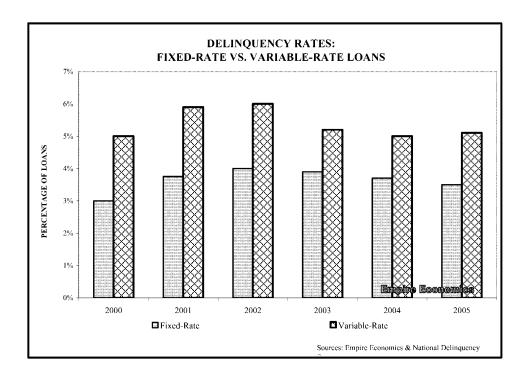
For example, the types of adjustments that may occur for various loan structures can be gauged by comparing their initial payments with their payments at the start of year six, after the five year time span during which rates are fixed at a low level; accordingly, these adjustments for various interest rate scenarios are as follows:

Mortgage Loan of \$500,000	Fixed Rate	Hybrid ARM	Option ARM
	30- Year	Interest Only	Initial Min. Pymts.
Initial Payments - First Five Years	\$2,998	\$2,553	\$1,608
	(Interest & Principal)	(Interest Only)	(Minimum Payments)
			(Negative Amortization)
Rates Decline 100 BP			
Payment: Start of Sixth-Yr.	\$2,998	\$2,960	\$3,289
Change from Initial Pymt.	0%	16%	105%
Rates Stable			
Payment: Start of Sixth-Yr.	\$2,998	\$3,260	\$3,575
Change from Initial Pymt.	0%	28%	122%
Rates Rise 100 BP			
Payment: Start of Sixth-Yr.	\$2,998	\$3,513	\$3,928
Change from Initial Pymt.	0%	38%	144%

- ➤ Homeowners with fixed rate mortgages can expect stable mortgage payments of some \$2,998 per year for the entire term of the loan of 30 years, regardless of what happens to mortgage rates after they originate their loans.
- ➤ Homeowners with Hybrid ARM Interest Only Loans have lower payments for the initial five years but can then expect higher mortgage payments starting in year six: from \$2,553 to \$3,260 (+28%) if rates are stable or, if rates rise by 100 basis points (one percent), from \$2,553 to \$3,513 (+38%).
- ➤ Homeowners with Option ARMs that initially make minimum payments (negative amortization) of some \$1,608 can expect very significant increases in their monthly payments at the start of year six: from the initial payment of \$1,608 to \$3,575 (+122%) if rates are stable, or if rates rise by 100 basis points, from \$1,608 to \$3,928 (+144%).

Additionally, the mortgage delinquency levels for homeowners with adjustable and creative mortgages have traditionally been significantly higher than for homeowners with fixed rate loans. This is typically attributed to homeowners with adjustable rate loans having difficulty with higher mortgage payments as rates rise as well as such households having "low" equity levels (due to higher loan to price ratios as well as negative amortization), and hence less of an incentive to "hold-on" to the home, especially if the rate of appreciation diminishes.

During the 2000-2005 time period, the 5.4% delinquency rate for adjustable rate loans has been above the 3.6% delinquency rate for fixed rate loans by some 50% (5.4% vs. 3.6%.).



4. Mortgage Rate Increases: Potential for Further Federal Reserve Board Rate Hikes

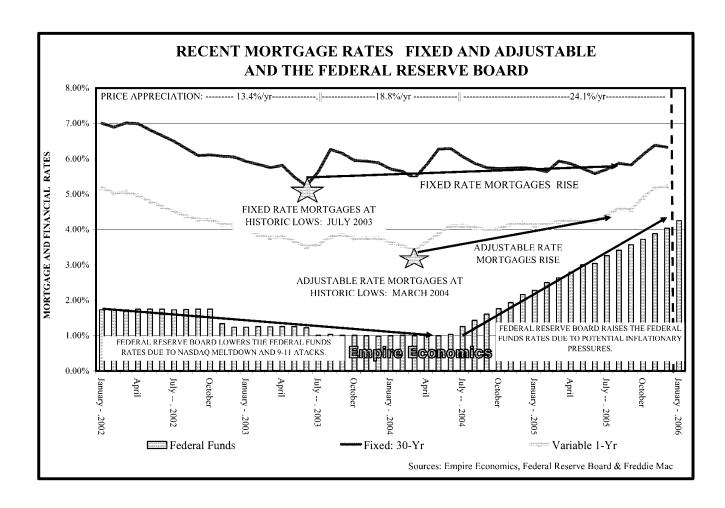
Since the financial markets, being very efficient, are difficult to forecast, especially mid-term and long-term rates, it is not the position of Empire Economics to forecast that mortgage rates will rise. Nevertheless, it is worthwhile to explore the potential implications of the Federal Reserve Board continuing its current policy of increasing the federal funds rate, since this directly impacts the shortend of the yield curve, and, in turn, adjustable rate mortgage rates as well as the creative mortgage structures.

The Federal Reserve Board, according to some analysts, is expected to raise the federal funds rate to some 4.75%, significantly above its prior level of 1.0% in June 2004; the federal funds rate is presently at 4.50%. Consequently, the primary driving forces underlying the strong rates of housing price appreciation, adjustable rates and creative financing structures, will diminish substantially over time.

(Note: Since the recent fixed rate of some 6.32% is some 110 basis points above the recent one-year adjustable rate of 5.22%, even a moderate decline in fixed rates would not become a driving force for further price appreciation because they are significantly higher than adjustable rates.)

Therefore, further increases in the federal funds rate will result in the short-term rates rising, and this, in turn, will cause the following:

- Existing Borrowers would have higher monthly payments as adjustable rate mortgages rise and creative teaser rates are realigned to HIGHER market rates, as compared to the current market rates.
- New Borrowers would face HIGHER rates, reducing their ability to qualify for loans that support existing prices, thereby placing downward pressure on home prices.



5. Specific Impacts of Higher Mortgage Rates on the Land-Secured Credit Quality

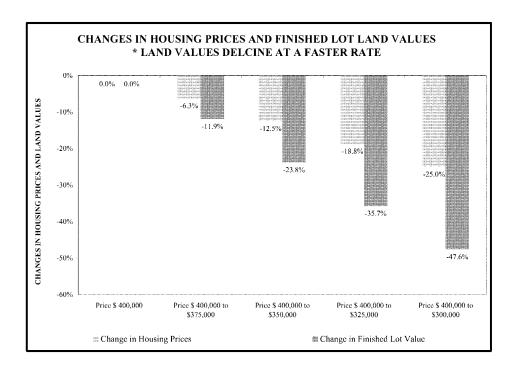
The widespread use of adjustable rate and creative financing for newly developing residential projects has significant implications for the Credit Quality underlying Land Secured Financing:

> Special Tax Rates set-forth in the Rate and Method of Apportionment of Special Taxes are based upon current housing prices which have recently realized strong rates of appreciation as a result of the utilization of adjustable and creative financing techniques by home purchasers.

Appraisals are based upon current land values, which, in turn, are derived from current housing prices, that have appreciated at a strong rate in recent years, and so they also reflect the use of adjustable and creative financing techniques. Furthermore, since the value of the land is a residual value, that is, the price of the home less the construction costs of building the home, most of the decline in the price of a home is passed through to the land, since construction costs are relatively stable in the short-run.

For example, if a home with an initial price of \$400,000 declines to \$350,000, a reduction of some -\$50,000 or -12.5%, the value of the finished lot for the same sized home declines from \$149,000 to \$113,600, a reduction of -\$35,400 or -23.8%. Similarly, a decline in the price of a home by 25% results in a reduction of the value of a finished lot for the same sized home by some 48%!

(Note: The above discussion focuses on the value of a finished lot which includes entitlements and infrastructure improvements; by comparison, the value of "raw" land, land without any entitlements or infrastructure improvements, may approach zero.)



Therefore, the Credit Quality underlying Land Secured Financings reflects the use of current prices and land values, and, as such, includes, among other factors, the underlying use of adjustable and creative loan structures by homeowners.

Consequently, should mortgage rates rise significantly, the Credit Quality of the land secured bonds is subject to substantial weakening due to the following:

➤ Lower housing prices resulting in a higher Special Tax to Home Price Burden for homeowners, possibly in excess of the Issuer's policy of a maximum total tax burden, typically some 1.8% to 2.0% of the initial sales prices, even though these maximums may have been satisfied at the time that the Special Taxes were established.

Significantly lower land values resulting in a reduced Value/Lien ratio, possibly below the Issuer's policy of typically some 3 to 1 or 4 to 1 when the bonds are sold, thereby diminishing the security for bond holders.

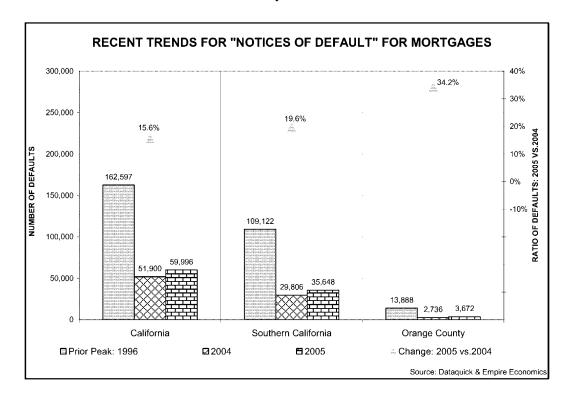
(The Appraisal for the Bond Issue is valid only for the stated Date of Value; it is not meant to be a prediction of future values.)

Higher levels of Special Tax delinquencies as monthly payments of owners increase resulting in diminishing the maximum Special Tax to the bond debt service coverage ratios for bond holders that may adversely impact the Issuer's ability to meet the debt service payments in a timely manner, possibly resulting in the use of the bond reserve fund. Adjustable rate mortgages (some 79% of current mortgages) have significantly higher delinquency rates than fixed rate mortgages; additionally, homeowners that use adjustable rate mortgages also have higher loan to value ratios as well, some 90% as compared to homeowners with fixed rate loans, some 81%.

Therefore, as mortgage rate resets occur to the current market rates, and furthermore, to the extent that mortgage rates rise further, then the Credit Quality for Land Secured financing may be diminished, resulting in **Higher Tax Burdens** due to lower housing prices, **Lower Value/Lien Ratios** due to lower land values, and **Higher Special Tax Delinquencies** due to higher monthly mortgage payments.

6. Recent Trends/Patterns for "Notices of Default" for Mortgages

A "leading" indicator of higher Special Tax delinquency rates may be "notices of default" (NOD) that are recorded against homes that are not making their mortgage payments on a timely basis. The NOD hit a prior peak in 1996, due to the adverse impacts that the economic recession had on the housing market, and then declined thereafter. However, for 2005 as compared to 2004, the level of NODs began to rise, by some 15.6% for California, 19.6% for Southern California and 34.2% for Orange County. So, although the number of NODs is well below the prior peak levels of 1996, the recent patterns of increases should be monitored carefully.



ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study for CFD No. 90-2 is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Title to Property **Property Boundaries** Accuracy of Information from Others Date of Study Hidden or Unapparent Conditions Opinions of a Legal/Specialized Nature Right of Publication of Report Soil and Geological Studies Earthquakes and Seismic Hazards **Testimony or Court Attendance** Maps and Exhibits Environmental and Other Regulations Required Permits and Other Governmental Authority Liability of Market Analyst Presence and Impact of Hazardous Material Structural Deficiencies of Improvements Presence of Asbestos Acreage of Property Designated Economic Scenario Provision of the Infrastructure; Role of Coordinator Developer/Builders Responsiveness to Market Conditions Financial Strength of the Project Developer/Builders Market Absorption Study Timeliness of Results

For additional information on the various assumptions and limiting conditions, please refer to the comprehensive Market Absorption Study.



MEMORANDUM

To: Clark Hampton

From: Lori Raineri

Date: February 28, 2014

Re: Mechanics of a CFD 90-2 (Talega) Future Tax Reduction

Introduction

I understand that the Board may consider changing past practice of levying taxes for CFD 90-2 (Talega) at the maximum levy for developed property¹, and you have asked that I explain the mechanics of accomplishing this, given that there are outstanding bonds secured by this taxing authority. As you know, we are not attorneys, but in trying to understand what would need to be done to alter the method of levying taxes, of course, we reviewed the transcript from the 2006 refunding bonds, which is the origin of all currently outstanding bonds.²

It stands to reason that the District would have to levy taxes at least to repay all amounts due on the outstanding bonds. There are other expenses for which taxes are also to be levied. Additionally, the contractual responsibilities are quite complex, so please consider this memorandum as the view of an experienced reviewer, but certainly does not take the place for appropriate legal advice.

Magnitude of Possible Reductions to Tax Levy

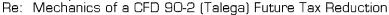
As you know, Clark, the Amended and Restated Rate and Method of Apportionment, which was adopted in 1999, sets out a process by which the amount of tax revenue needed each year is determined, and this is described as the "Special Tax Requirement". Due to covenants related to the 2006 refunding bonds, taxation must be enough to pay for debt service, the costs of administering the CFD, and to maintain a debt service reserve fund. In the past the District has levied taxes at the maximum level, and the "coverage" tax revenue (not needed for debt service, administration of the CFD and the reserve fund) has been allocated to "pay as you go" expenditures for authorized facilities of the CFD. While for budgeting purposes, we tend to think of these "coverage" revenues as being somewhat discretionary, there are legal requirements to

³ Please see footnote 1.

¹ Since the 1999 Amendment, undeveloped property cannot be taxed unless the levy of the maximum taxes for developed property is insufficient to meet the "Special Tax Requirement". According to the *Amended and Restated Rate and Method of Apportionment*:

[&]quot;Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

² Currently, bonds outstanding = \$39,985,000 of the \$44,980,000 issued in 2006. The first call date is September 1, 2016, when \$36,950,000 which will still be outstanding, callable at par.

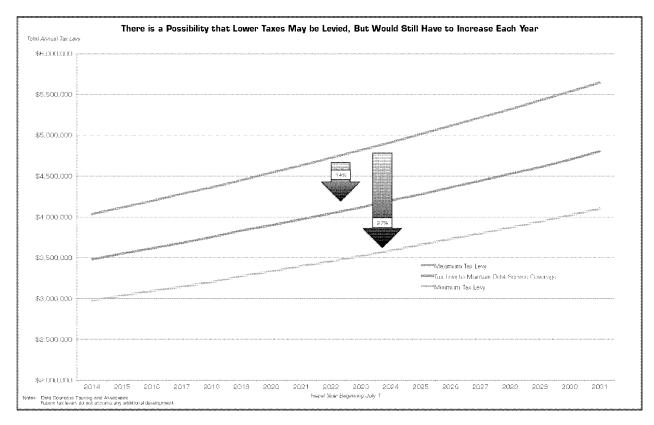






have these funds available. The first claim is the direct security of the bonds and the second is the fulfillment of the facilities needs that justifies the CFD.

As a starting point, I wanted to understand the potential magnitude of change. We looked at three scenarios. The first is if the current practice continued, of levying taxes at the maximum level; the second is if the Board continued to levy taxes only at the level needed to maintain debt service coverage at a similar level to that of the first year the 2006 bonds were outstanding; and the third is if taxes were levied at a minimal level to address repayment of the bonds and CFD administration. As the chart below shows, the minimum tax levy required would be approximately 27% lower than the maximum levy, and a tax levy to maintain debt service coverage at the level first experienced after bonds were issued would be about 14% lower⁴.



At first glance, the differences shown may seem large, but not in the context of municipal bonds. A 1.05 to 1.10 debt service coverage is considered "thin"⁵. The 2006 refunding bonds were issued as "AAA-insured" and experienced 123% coverage in 2006-07. It is important to note that when the bond insurer, AMBAC was downgraded (as all municipal bond insurers were as a result of fall-out from the 2008 financial crisis), Standard & Poor's withdrew the rating on the 2006 bonds, and Moody's downgraded the bonds to Caa2. Naturally, this loss of value to bondholders is important, and we should be cognizant of the bondholder and bond insurer perspectives. In light of that, let's discuss our understanding of the legal responsibilities.

⁴ The percentage changes are described approximately, because the differentials vary slightly from year to year as well as in total.

⁵ Feldstein, Sylvan and Frank Fabozzi, 2008, *The Handbook of Municipal Bonds*, Page 827

February 28, 2014 Clark Hampton

Re: Mechanics of a CFD 90-2 (Talega) Future Tax Reduction

Page 3



Review of Relevant Legal Requirements

The District's obligation to levy taxes is stated on Page 34 of the Indenture for the 2006 refunding bonds as follows:

(b) Levy of Special Tax. The District has levied the Special Tax since Fiscal Year 1999-2000 and in each Fiscal Year thereafter and, so long as any Bonds issued under this Indenture are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and deemed available by the District for such purpose, to pay (1 1 the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

As can be seen, this is a sufficiency requirement, meaning that the tax levy needs to be sufficient, not maximized. However, I do <u>not</u> believe there is authority to alter the *maximum allowable* tax levies. The Indenture for the 2006 refunding bonds states, on Page 36:

- (g) Reduction of Maximum Special Taxes. The District hereby finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District hereby determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this Section 5.2(g) would interfere with the timely retirement of the Bonds. The District determines it to be necessary in order to preserve the security for the Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District.
- (h) Covenants to Defend. The District covenants that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in Section 5.2(g) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

The Amended and Restated Rate and Method of Apportionment provides a "Method of Apportionment of the Special Tax" as Section D, which begins:

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement.

The Special Tax Requirement, Page 4 of the Amended and Restated Rate and Method of Apportionment:

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 90-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of CFD No. 90-2 facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special

Page 4



Tax levy on Undeveloped Property or Undeveloped Non-Residential Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

What these sections indicate is that the special taxes must be levied to produce the Special Tax Requirement. In addition to being sufficient to take care of the expenses related to repaying the outstanding bonds, the Special Tax Requirement includes *eligible* facilities, as per item (v), above.

Therefore, it seems that in order to levy at less than the maximum levy on developed property, the District would have to be satisfied that it will not be constructing any more *eligible* facilities. When CFD No. 90-2 was amended in 1999, the authorized facilities were specifically changed. We've identified two references that seem important. The first, found in Exhibit A to *Amendment No. 1 To Mitigation Agreement*, states:

"Amended School Facilities Plan"

The School Facilities shall include facilities to serve grades K-5, 6-8 and 9-12 students, including, but not limited to, transportation facilities, central support and administrative facilities, interim housing and special education facilities, as further described in that certain CFD Report to be prepared by the District's special tax consultant in connection with the election.

I believe that the "certain CFD Report" refers to a report titled Amended Community Facilities District Report, Mello-Roos Community Facilities Act Of 1982, Community Facilities District No. 90-2 (Talega) of the Capistrano Unified School District, dated June 14, 1999.

This report states that the specific facilities described are estimates and are based on a particular understanding of the intended development, and the following Page 3:

B. Estimated Cost of Proposed Bond Financed Public Improvements

The facilities and the estimated costs herein are subject to review/confirmation. The costs listed in Table 2 below are estimates only, based upon current construction and land costs and actual costs may differ from those estimates herein.

And the following on Page 4:

Page 5



TABLE 2

Facilities Improvements	Projected Cost
Construction of New K-5/6-8 School (1,700 Student Capacity)	\$14,000,000
Purchase of Land for K-5/6-8 School Site	\$11,100,000
Contribution Towards High School Construction	\$8,838,022
Total Facilities Costs	\$33,938,022

As you know, In 2001 and 2002, bonds were issued on behalf of CFD $90-2^6$. From these issuances, there were deposits for "acquisition and construction" of \$19,186,099.23 and \$14,428,382.56, respectively for a total of \$33,614,481.79. Obviously, not quite as much as was anticipated to be needed at the time of the 1999 amendment, and even less so, if one considers that the revenues were 2001 and 2002 dollars, while the costs were estimated in 1999 dollars. I don't think that it can be concluded that the 2001 and 2002 bond issues generated a sufficient amount to address facilities needs identified at the time of the 1999 amendment, but certainly a significant portion.

When the original mitigation agreement (executed April 16, 1991 and which served as somewhat of a foundational document for the original CFD formation proceedings) was amended in 1999, by Amendment No. 1 To Mitigation Agreement, this document included two sections which may require the District to continue to tax at the maximum levy in order to generate funds which are due to Talega Associates, the signatory to the Amendment.

These are:

On Pages 3 - 4:

"Surplus Special Taxes" means the amount of annual special taxes of CFD No. 90-2 levied upon and collected from Developed Property (as defined in the Amended Rate and Method) in excess of 100% of the sum of, (i) annual debt service on outstanding Bonds of CFD No. 90-2, (ii) the amount required for debt service reserve replenishment and (iii) annual CFD No. 90-2 Administrative Expenses (as defined in the Amended Rate and Method).

On Pages 4 - 5:

The Site selected by CUSD shall satisfy the conditions of Section 6.0 hereof and the rules of the Office of Public School Construction and of the State Department of Education, and the purchase price therefor shall be payable solely from CFD No. 90-2 Bond proceeds and 50% of Surplus Special Taxes, if any, which may be available therefor pursuant to the terms of this Section 2.0 and Section 6.0 hereof. The parties hereto agree that when the District is no longer permitted to

⁶ These bonds were refinanced by the 2006 series bonds.

Page 6



levy special taxes any obligation hereunder, including without limitation the obligation to pay the Purchase Price, shall terminate.

I think it would be wise to obtain a written legal opinion that there are no possible claims on the part of Talega Associates, or its successors on CFD 90-2 tax proceeds (or any CFD 90-2 revenues).

Analysis

Based on a review of the documents referenced, it appears that if the District can make a finding that it will not be doing any more *eligible* facilities prior to the final year of taxation in 2036-37 as per the School Board's Resolution No. 0506-73 and can be assured that any contemplated action would not create "surplus special taxes" which may create a claim for a payment from the Talega Associates or a successor entity, it could levy taxes at a level lower than the maximum.

It seems that there are at least two obvious approaches. The first would be to reduce taxation to the minimum level of sufficiency each year when taxes are levied. Because the 2006 bonds were issued with AAA-insured rating, and the Official Statement⁷ showed significant projected debt service coverage through maturity, it seems like the scenario of sufficiency we should begin with would be one where the debt service coverage is maintained at the level experienced in the first year after the 2006 bonds were issued. The table below shows the actual total tax levy each year since the 2006 bonds were issued, as well as it how each future year's tax levy might be adjusted to maintain debt service coverage to approximately the same level as in fiscal year 2006-07.

Tax Lev	y if D	SC Maintained a	it Level Similar	to When 2006	Bonds Were Iss	ued	
							Debt Service
		Annual	Administrative				Coverage
Fiscal Y	<u>rear</u>	Debt Service	Expenses	Subtotal	Pay-As-You-Go	Total Levy	[Total Levy + Gross D.S.]
2006	-07	\$2,369,564	\$208,748	\$2,578,312	\$332,526	\$2,910,838	123%
2007	-08	\$2,418,764	\$197,727	\$2,616,491	\$620,675	\$3,237,166	134%
2008	-09	\$2,465,364	\$10,426	\$2,475,790	\$994,638	\$3,470,428	141%
2009	-10	\$2,514,364	\$198,752	\$2,713,116	\$865,783	\$3,578,899	142%
2010	-11	\$2,565,564	\$199,092	\$2,764,656	\$927,550	\$3,692,206	144%
2011	-12	\$2,618,764	\$199,363	\$2,818,127	\$964,583	\$3,782,710	144%
2012	-13	\$2,673,764	\$105,638	\$2,779,402	\$1,095,050	\$3,874,452	145%
2013	-14	\$2,725,364	\$105,870	\$2,831,234	\$1,120,450	\$3,951,684	145%
2014	-15	\$2,773,564	\$199,870	\$2,973,434	\$505,484	\$3,478,918	125%
2015	-16	\$2,835,851	\$199,870	\$3,035,721	\$516,073	\$3,551,794	125%
2016	-17	\$2,890,901	\$199,870	\$3,090,771	\$525,431	\$3,616,202	125%
2017	-18	\$2,946,226	\$199,870	\$3,146,096	\$534,836	\$3,680,933	125%
2018	-19	\$3,004,914	\$199,870	\$3,204,784	\$544,813	\$3,749,597	125%
2019	-20	\$3,071,914	\$199,870	\$3,271,784	\$556,203	\$3,827,987	125%
2020	-21	\$3,128,226	\$199,870	\$3,328,096	\$565,776	\$3,893,873	124%
2021	-22	\$3,193,646	\$199,870	\$3,393,516	\$576,898	\$3,970,414	124%
2022	-23	\$3,252,906	\$199,870	\$3,452,776	\$586,972	\$4,039,748	124%
2023	-24	\$3,319,031	\$199,870	\$3,518,901	\$598,213	\$4,117,114	124%
2024	-25	\$3,388,181	\$199,870	\$3,588,051	\$609,969	\$4,198,020	124%
2025		\$3,454,906	\$199,870	\$3,654,776	\$621,312	\$4,276,088	124%
2026		\$3,528,981	\$199,870	\$3,728,851	\$633,905	\$4,362,756	124%
2027	-28	\$3,596,419	\$199,870	\$3,796,289	\$645,369	\$4,441,658	124%
2028	-29	\$3,670,069	\$199,870	\$3,869,939	\$657,890	\$4,527,828	123%
2029	-30	\$3,739,238	\$199,870	\$3,939,108	\$669,648	\$4,608,756	123%
2030	-31	\$3,818,694	\$199,870	\$4,018,564	\$683,156	\$4,701,720	123%
2D31	-32	\$3,902,513	\$199,870	\$4,102,383	\$697,405	\$4,799,788	123%
		\$79,867,692	\$4,823,276	\$84,690,968	\$17,650,608	\$102,341,576	
<u> </u>							
1	ource	e: Taussig and A	ssociates, Proj	ection Based on	Maintaining DS	C at Level Similar	to 2006 Projection
Actual							

⁷ The disclosure provided to investors at the time bonds were sold.

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As can be seen, with this approach, in 2014-15, the tax levy would decline from 2013-14, by approximately 12%. Another way to compare is to look at what the maximum levy would be as compared to the "sufficiency" level of taxation⁸. The table below makes this comparison.

Comparison (of DSC Mainenand	ce and Maximum	Tax Levies	
	Tax Levy	Maximum		
	w/Maintenance	Tax	Dollar	%
Fiscal Year	of DSC	<u>Levy</u>	<u>Difference</u>	<u>Difference</u>
2014 -15	\$3,478,918	\$4,030,717	(\$551,800)	-13.69%
2015 -16	\$3,551,794	\$4,111,332	(\$559,538)	-13.61%
2016 -17	\$3,616,202	\$4,193,558	(\$577,356)	-13.77%
2017 -18	\$3,680,933	\$4,277,430	(\$596,497)	-13.95%
2018 -19	\$3,749,597	\$4,362,978	(\$613,381)	-14.06%
2019 -20	\$3,827,987	\$4,450,238	(\$622,251)	-13.98%
2020 -21	\$3,893,873	\$4,539,242	(\$645,370)	-14.22%
2021 -22	\$3,970,414	\$4,630,027	(\$659,613)	-14.25%
2022 -23	\$4,039,748	\$4,722,628	(\$682,880)	-14.46%
2023 -24	\$4,117,114	\$4,817,080	(\$699,966)	-14.53%
2024 -25	\$4,198,020	\$4,913,422	(\$715,402)	-14.56%
2025 -26	\$4,276,088	\$5,011,690	(\$735,602)	-14.68%
2026 -27	\$4,362,756	\$5,111,924	(\$749,168)	-14.66%
2027 -28	\$4,441,658	\$5,214,163	(\$772,505)	-14.82%
2028 -29	\$4,527,828	\$5,318,446	(\$790,618)	-14.87%
2029 -30	\$4,608,756	\$5,424,815	(\$816,059)	-15.04%
2030 -31	\$4,701,720	\$5,533,311	(\$831,592)	-15.03%
2031 -32	\$4,799,788	\$5,643,977	(\$844,190)	-14.96%
] _	\$73,843,193	\$86,306,980	(\$12,463,787)	
_				
Data source:	Taussig and Ass	ociates		

Another approach would be to maintain taxes at the maximum level with a plan to repay the outstanding bonds as soon as possible and reduce the amount of taxes spent on interest cost. Outstanding bonds may be repaid early with no prepayment, beginning in 2016. The outstanding bonds could be paid down by selecting the maturities with the highest coupons to reduce the cost of outstanding bonds.9

In 2013-14, the median tax levy for CFD 90-2 is \$1,142.83¹⁰. Below for reference, is a sample tax bill for a property paying exactly the median rate (see tax levy listed as Mello-Roos R5).

⁸ Please note that for purposes of this analysis, a conservative approach to sufficiency is being used, which is to maintain debt service coverage at a level that might be reasonably expected as opposed to what is minimally required. The District owes a duty to bondholders as well as having a contractual relationship with a bond insurer, so as this is an initial exploration, it seems wise to be conservative when dealing with changes in practice that diminish credit.
⁹ Section 4.1 of the 2006 Bond Indenture provides:

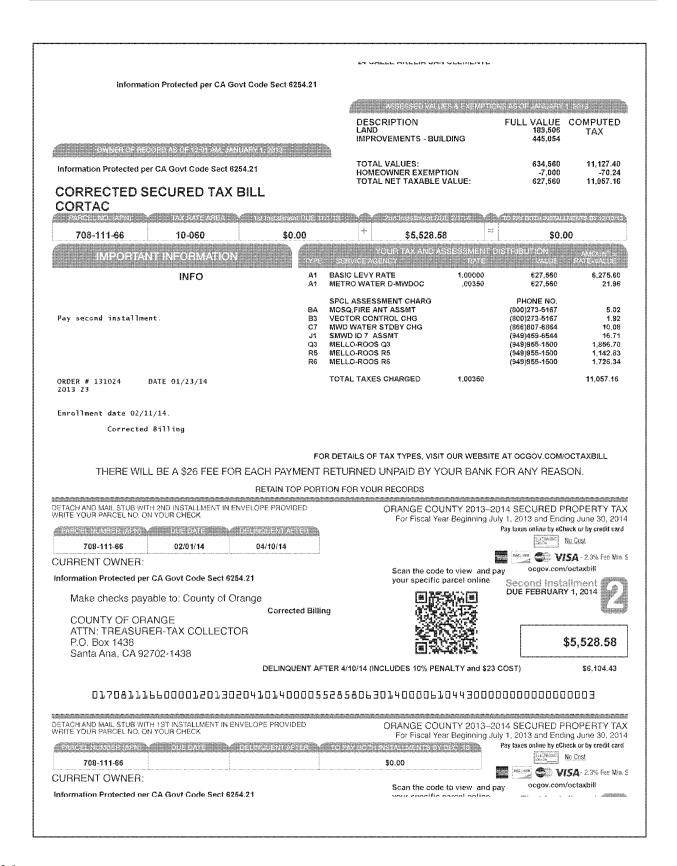
The Bonds maturing on or after September I, 2017 may be redeemed before maturity at the option of the District, from any source of funds, on any Interest Payment Date on or after September 1,2016 as a whole, or in part by lot from such maturities as are selected by the District. The Bonds redeemed prior to maturity, if any, will be redeemed at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium.

The longest maturities are outstanding at coupons of 4.625%, while bonds maturing in 2017, the earliest maturity subject to call, carry a 4.5% coupon.

The average was \$1,287.61

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To understand the effect on a taxpayer from a reduction, we looked at approximately how much a 10% reduction and 15% reduction would have been if it had been in place this year, using this example tax bill from 2013-14. If the CFD 90-2 tax had been 10% lower, the total tax bill would have been \$114.28 lower, if 15% lower, the total tax bill would have been \$171.42 lower. The total tax bill was \$11,057.16. The savings on a percentage basis would have ranged 1.03% to 1.55%.

Another question that comes to mind, given that the District has been taxing at the maximum allowable levy, whether a case could be made that more taxes have been collected than needed.

Special Tax I	Requirement and	Levies Since 2	006 Bonds Issue	ed		
						Debt Service
	Annual	Administrative				Coverage
<u>Fiscal Year</u>	Debt Service	Expenses	<u>Subtotal</u>	Pay-As-You-Go	<u>Total Levy</u>	(Total Levy + Gross D.S.)
2006 -07	\$2,369,564	\$208,748	\$2,578,312	\$332,526	\$2,910,838	123%
2007 -08	\$2,418,764	\$197,727	\$2,616,491	\$620,675	\$3,237,166	134%
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2013 -14	\$2,725,364	\$105,870	\$2,831,234	\$1,120,450	\$3,951,684	145%
	\$20,351,512	\$1,225,616	\$21,577,128	\$6,921,255	\$28,498,383	
	·		·		-	
Data Source	e: Taussig and A	ssociates, Annu	ual CFD Administ	ration Reports		

As the table below shows, \$6.9 million has been generated for pay as you go expenditures since the 2006 bonds were issued. Given that \$36,950,000 in principal balance alone is still outstanding on the bonds, the amount levied thus far is still well below what is needed.

Summary

Our review of the basis for the CFD 90-2 taxation indicates that the District is obligated to maintain *its authority* for maximum taxation, as it this is the repayment source promised to holders of the 2006 bonds, \$38,950,000 of which are still outstanding. This stands to reason as well as being provided in the bond documents. It can't be known how development will continue or whether there will be an increase in tax delinquencies. Thus, maximum taxation must remain an option until all CFD obligations are repaid.

It is unclear whether there is an obligation to complete additional CFD facilities, and we recommend obtaining a legal opinion that addresses three questions:

- 1) Is there an obligation to use all possible resources to complete all feasible facilities projects or to meet the standard of service described in the 1999 amendment to CFD 90-2?
- 2) Is there any possible claim to CFD 90-2 taxes other than those used to pay costs related to the 2006 bonds, CFD administrative costs or authorized facilities expenditures?

 3) Is there any exposure from differences in past disclosure to investors (or the bond insurer) if the District levies taxes at less than the maximum?

Our hope is that if legal opinions can be obtained that provide clear answers to these questions, then the Board may feel comfortable that it has the authority to annually levy taxes only as will be sufficient to address annual obligations, and that these annual obligations could be limited to

February 28, 2014 Clark Hampton

Re: Mechanics of a CFD 90-2 (Talega) Future Tax Reduction

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retiring the outstanding bonds on schedule. If this proves to be the case, annual taxation for pay as you go facilities expenditures and for future debt service would be optional items that can be funded at the discretion of the School Board.

At the Board's direction, we could seek to obtain legal opinions. A reasonable schedule would be to have these in hand by the end of May. This would certainly be in time for the School Board to exercise the level of discretion clarified by the legal opinions in levying taxes for 2014-15.

Recommendation

If the School Board provides direction to proceed with levying taxes in 2014-15 at a level lower than the maximum, we recommend not lowering the coverage below the 2006-07 level of 123%. The reason for this is that it maintains an important element of the credit quality of the bonds at a level that an investor could have reasonably expected from the disclosure on the bonds at the time of sale.

Please let us know if you have questions or comments.

LR/abm