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# CONTINUING DISCLOSURE (SUBMISSION STATUS: PUBLISHED)

# FINANCIAL/OPERATING FILING (CUSIP-9 BASED)

# Rule 15c2-12 Disclosure

Annual Financial Information and Operating Data: 2013 Annual Report, for the year ended 06/30/2013

# DOCUMENTS

# Financial Operating Filing

<sup>i...</sup>CFD2004-1AR2013\_FINAL.pdf posted 02/27/2014

# THE FOLLOWING ISSUERS ARE ASSOCIATED WITH THIS CONTINUING DISCLOSURE SUBMISSION:

CUSIP-6	State	Issuer Name
68423P	СА	ORANGE CNTY CALIF CMNTY FACS DIST SPL TAX

# THE FOLLOWING 8 SECURITIES HAVE BEEN PUBLISHED WITH THIS CONTINUING DISCLOSURE SUBMISSION:

CUSIP-9	Maturity Date
68423PUX6	08/15/2027
68423PUY4	08/15/2028
68423PUZ1	08/15/2029
68423PVA5	08/15/2030
68423PVB3	08/15/2031
68423PVC1	08/15/2032
68423PVD9	08/15/2033
68423PVE7	08/15/2034

**Issuer's Contact Information** 

#### Submission Preview Print

2/27/2014
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# COUNTY OF ORANGE, CALIFORNIA COMMUNITY FACILITIES DISTRICT NO. 2004-1 SPECIAL TAX REFUNDING BONDS 2014 SERIES A & B (LADERA RANCH) ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2013

Dated March 1, 2014

Prepared at the direction of and on behalf of:

**County of Orange** 10 Civic Center Plaza, Third Floor Santa Ana, CA 92701-4062

**Prepared by:** 

**David Taussig & Associates, Inc.** 5000 Birch Street, Suite 6000 Newport Beach, CA 92660

# County of Orange, California Community Facilities District No. 2004-1 Special Tax Refunding Bonds 2014 Series A & B (Ladera Ranch) Annual Report For Fiscal Year Ended June 30, 2013

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# **EXHIBITS**

Exhibit A – Official Statement

# INTRODUCTION

The Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) (the "District") hereby provides its annual report (the "Annual Report") for the fiscal year ended June 30, 2013 in connection with the following Bonds:

# **Bond Issue:**

1. Community Facilities District No. 2004-1 of the County of Orange Special Tax Refunding Bonds, 2014 Series A & B (Ladera Ranch)

# **Annual Report:**

The Authority's Annual Report required by the Continuing Disclosure Certificate (the "Disclosure Certificate") dated January 1, 2014 with respect to the Series A Bonds for the Fiscal Year ended June 30, 2013 is attached hereto.

# **Other Matters:**

This Annual Report is provided solely for purposes of the Disclosure Certificate. The filing of this Annual Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the County, the Authority or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Annual Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the District's financial condition, the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the District.

While the financial statements of the County (which includes the District) for Fiscal Year ended June 30, 2013 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the District and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.

# **SECTION A**

# 1. Audited Financial Statements for Fiscal Year Ended June 30, 2013.

To be submitted separately pursuant to Section 3(a) of the Continuing Disclosure Agreement.

While the financial statements of the County (which includes the District) for Fiscal Year ended June 30, 2013 have been incorporated herein by reference in order to comply with SEC Rule 15c2-12, the Bonds are a limited obligation of the District and neither the faith and credit nor the taxing power of the County is pledged to the payment of the Bonds. No income, receipts, funds (including the County general fund) or moneys of the County are pledged to the repayment of the Bonds.

2. Official Statement.

The Series A Official Statement is attached pursuant to Section 4 of the Continuing Disclosure Agreement (Exhibit A).

# EXHIBIT A

# **OFFICIAL STATEMENT**

#### **OFFICAL STATEMENT DATED JANUARY 28, 2014**

#### NEW ISSUE - BOOK-ENTRY ONLY

RATING: S&P: BBB (See "RATING" 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. See "LEGAL MATTERS — Tax Exemption" herein.

# \$36,540,000 COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH) SERIES 2014A SPECIAL TAX REFUNDING BONDS

#### **Dated: Date of Delivery**

#### Due: August 15, as shown on the inside cover page

The Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014A Special Tax Refunding Bonds (the "Series A Bonds") and the Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014B Special Tax Refunding Bonds (the "Series B Bonds" and together with the Series A Bonds, the "Bonds") are being issued and delivered by Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) (the "District") to refund the District's outstanding Special Tax Bonds Series A of 2005 maturing on and after August 15, 2014. See "THE REFUNDING PLAN" herein. The District has been formed by and is located in the County of Orange, California (the "County").

The Series B Bonds will be purchased in a private placement by an accredited investor (the "Original Purchaser"). The Series B Bonds are not being offered pursuant to this Official Statement.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to Resolution No. 14-013 and the Supplement to Resolution No. 14-013 adopted by the Board of Supervisors of the County, acting as the legislative body of the District on January 14, 2014 (collectively, the "Resolution). The Bonds are secured on a parity under the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within the District subject to the Special Taxes and from certain other funds pledged under the Resolution, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Supervisors of the County and the qualified electors within the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes." The Board of Supervisors of the County is the legislative body of the District.

The Series A 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 in book-entry form only. Purchasers of the Series A Bonds will not receive certificates representing their beneficial ownership of the Series A Bonds but will receive credit balances on the books of their respective nominees. Interest on the Series A Bonds will be payable on August 15, 2014 and semiannually thereafter on each February 15 and August 15. Principal of and interest on the Series A Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the beneficial owners of the Series A Bonds. See "THE SERIES A BONDS — General Provisions" and APPENDIX E — "BOOK-ENTRY ONLY SYSTEM" herein.

Neither the faith and credit nor the taxing power of the District, the County, 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 special tax obligations of the District payable solely from Special Taxes and certain other amounts held under the Resolution as more fully described herein.

The Series A Bonds are subject to optional redemption prior to maturity as set forth herein. See "THE SERIES A BONDS — Redemption" herein.

Certain events could affect the ability of the District to pay the principal of and interest on the Series A Bonds when due. The purchase of the Series A Bonds involves significant investment risks, and the Series A Bonds may not be suitable investments for many investors. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series A Bonds.

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

MATURITY SCHEDULE (See Inside Cover Page)

The Series A 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. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the Series A Bonds. Certain legal matters will be passed on for the County and the District by the Office of the County Counsel and for the Underwriter by McFarlin & Anderson LLP, Laguna Hills, California, as counsel to the Underwriter. It is anticipated that the Series A Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about February 6, 2014.

# PiperJaffray<sub>®</sub>

# **COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE** (LADERA RANCH) **SERIES 2014A SPECIAL TAX REFUNDING BONDS**

# **MATURITY SCHEDULE**

# (Base CUSIP<sup>†</sup>: 68423P)

Maturity Date (August 15)	Principal Amount	Interest Rate	Yield	$CUSIP^{\dagger}$
2027	\$1,975,000	5.000%	3.940% <sup>C</sup>	68423PUX6
2028	3,920,000	5.000	$4.060^{CC}$	68423PUY4
2029	4,225,000	5.000	4.160 <sup>CC</sup>	68423PUZ1
2030	4,555,000	5.000	4.250 <sup>CC</sup>	68423PVA5
2031	4,900,000	5.000	4.340 <sup>CC</sup>	68423PVB3
2032	5,260,000	5.000	$4.420^{CC}$	68423PVC1
2033	5,650,000	5.000	$4.500^{CC}$	68423PVD9
2034	6,055,000	5.000	4.550 <sup>CC</sup>	68423PVE7

<sup>C</sup> Yield to call on August 15, 2022 at a redemption price of 101%. <sup>CC</sup> Yield to call on August 15, 2023 at a redemption price of 100%.

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# **COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH)**



# COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH)

# BOARD OF SUPERVISORS Serving as the Legislative Body of Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch)

Shawn Nelson (Fourth District), Chairman Patricia C. Bates (Fifth District), Vice Chair Janet Nguyen (First District) John M.W. Moorlach (Second District) Todd Spitzer (Third District)

## **COUNTY OFFICIALS**

Michael B. Giancola, County Executive Officer Shari L. Freidenrich, Treasurer-Tax Collector Jan Grimes, Auditor-Controller Nicolas S. Chrisos, County Counsel

#### BOND COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation Newport Beach, California

#### **PAYING AGENT**

U.S. Bank National Association Los Angeles, California

# FINANCIAL ADVISOR

Fieldman, Rolapp & Associates Irvine, California

## SPECIAL TAX CONSULTANT

David Taussig & Associates, Inc. Newport Beach, California

### **VERIFICATION AGENT**

Causey Demgen & Moore, P.C. Denver, Colorado Investment in the Series A Bonds involves risks which are not appropriate for certain investors. Therefore, only persons with substantial financial resources (in net worth or income) who understand those risks should consider such an investment.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the County and the District. No dealer, broker, salesperson or other person has been authorized by the County, the District, the Paying Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Series A 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 County, the District, the Paying 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 Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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 District or the County. This Official Statement is not to be construed as a contract with the purchasers or Owners of the Series A 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 are not to be construed as representations of fact.

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 of completeness of such information.

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 County, the District or any other parties described herein since the date hereof. All summaries of the Resolution 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 County for further information in connection therewith.

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. Neither the County nor District plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. The District is obligated to provide continuing disclosure for certain historical information only.

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

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## \$36,540,000 COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH) SERIES 2014 SPECIAL TAX REFUNDING BONDS

#### **INTRODUCTION**

#### General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of the Series A Bonds (defined below) 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 B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — Definitions" herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the "Official Statement"), is to provide certain information concerning the issuance by Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) (the "District") of the \$36,540,000 Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014A Special Tax Refunding Bonds (the "Series A Bonds").

The \$31,380,000 Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014B Special Tax Refunding Bonds (the "Series B Bonds" and together with the Series A Bonds, the "Bonds") will be issued simultaneously and on a parity with the Series A Bonds. The Series B Bonds will be purchased in a private placement. The Series B Bonds are not being offered pursuant to this Official Statement.

The proceeds of the Bonds, together with certain existing funds of the District, will be used to defease all of the District's outstanding Special Tax Bonds Series A of 2005 (the "Prior Bonds"), originally issued in the aggregate principal amount of \$75,645,000 and now outstanding in the principal amount of \$70,745,000 (the "Prior Bonds"). A portion of the Bonds will be used to fund a deposit to the Reserve Account and to pay costs of issuance of the Bonds. See "THE REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

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 Resolution No. 14-013 and the Supplement to Resolution No. 14-013 adopted by the Board of Supervisors of the County, acting as the legislative body of the District on January 14, 2014 (collectively, the "Resolution). Upon their issuance, the Bonds will be the only outstanding bonds of the District and will be secured under the Resolution by a pledge of and lien upon Special Taxes (as defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Resolution. The District will covenant in the Resolution not to issue any other bonds or indebtedness secured by the Special Taxes except to refund the Bonds or any Parity Bonds. See "THE SERIES A BONDS—No Additional Bonds Except for Refunding" herein.

#### The District

*Formation Proceedings*. The District was formed by the County of Orange (the "County") 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 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 district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners within such district and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, the County Board of Supervisors 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, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the County Board of Supervisors adopted resolutions establishing the District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On July 13, 2004, at an election held pursuant to the Act, the landowners who comprised the qualified voters of the District, authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed \$85,000,000 and approved the rate and method of apportionment of the Special Taxes (the "Rate and Method"), is set forth in APPENDIX A hereto. The Board of Supervisors of the County acts as the legislative body of the District.

*Ladera Ranch Development*. The District is located within the master development known as Ladera Ranch. Ladera Ranch is an approximately 4,000 acre planned community located in the unincorporated southeast portion of the County. Ladera Ranch is surrounded by a number of planned communities, including Rancho Santa Margarita, Mission Viejo, and Coto de Caza.

**Development in the District**. As of January 1, 2013 (which is the date of the latest available County Assessor's roll), the District consisted of 774 single-family homes, 132 custom lots, and 100 parcels consisting of 33.02 acres of undeveloped property. As of November 15, 2013, 74 of the 132 parcels of custom lots had completed homes with certificates of occupancy. As of November 18, 2013, 95 of the 132 parcels of the custom lots had been issued building permits. As of November 19, 2013, 130 of the custom lots were owned by individual owners and two were owned by a custom homebuilder, Warmington Legacy. CFD No. 2004-1 is located in an unincorporated area in the County, near southeast Mission Viejo and consists of approximately 645 gross acres of which 243.76 acres are subject to the Special Taxes. See "THE DISTRICT – General Description of the District" herein.

As of January 1, 2013, the assessed value of the property within the District subject to the levy of the Special Tax was \$970,018,401. The estimated assessed value to lien ratio for the property within the District subject to the Special Tax levy in Fiscal Year 2013-14 is 10.30 to 1 based on the principal amount of the Bonds and other overlapping debt secured by *ad valorem* taxes, special taxes and assessments on such property. See "THE DISTRICT – Estimated Assessed Value-to-Lien Ratios" herein.

#### Security and Sources of Payment for the Bonds

*General*. The Bonds and any Parity Bonds are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the Bonds and any Parity Bonds are payable solely from the Special Taxes to be levied annually against the property in the District, or, to the extent necessary, from the moneys on deposit in the Reserve Account. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of the County. Although the Special Taxes will constitute a lien on the property subject to taxation in the District, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

*Limited Obligations*. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds and any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the County nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Resolution as more fully described herein.

**Special Taxes.** 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, but excluding penalties and interest imposed upon delinquent installments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" and APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES." Under the Resolution, the District will pledge to repay the Bonds and any Parity Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the "Net Special Taxes") and from amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Resolution.

The Special Taxes are the primary security for the repayment of the Bonds and any Parity 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 and any Parity Bonds are amounts held by the Paying Agent in the Special Tax Fund, including amounts held in the Reserve Account therein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund."

*Foreclosure Proceeds.* The District will covenant in the Resolution for the benefit of the Owners of the Bonds and any Parity Bonds that it will commence, and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied except as provided below.

Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement. 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 at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds. As of January 27, 2014, there were no delinquent parcels within the District in the foreclosure process. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*" and Table 7 herein. There is no assurance that the property within the District can be sold for the assessed 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 — Property Values; Value-to-Lien Ratios" herein.

### **Description of the Bonds**

The Series A Bonds will be issued in fully registered form and will be registered initially 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 Series A 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 Series A Bonds. In the event that the book-entry only system described herein is no longer used with respect to the Series A Bonds, the Series A Bonds will be registered and transferred in accordance with the Resolution. See APPENDIX E — "BOOK-ENTRY ONLY SYSTEM" herein.

Principal of, premium, if any, and interest on the Series A Bonds is payable by the Paying 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 bookentry only system is no longer used with respect to the Series A Bonds, the Beneficial Owners will become the registered owners of the Series A Bonds and will be paid principal and interest by the Paying Agent, all as described in the Resolution. See APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — Registration of Exchange or Transfer" herein.

The Series B Bonds will be issued under the Resolution simultaneously and on a parity with the Series A Bonds in the principal amount of \$31,380,000. The Series B Bonds will be purchased in a private placement by an accredited investor. The Series B Bonds are not being offered pursuant to this Official Statement. Interest on the Series B Bonds will also be paid on each Interest Payment Date and principal will be paid annually on each August 15.

The Series A Bonds are subject to optional redemption as described herein. For a more complete description of the Series A Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE SERIES A BONDS" and APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS" herein.

### **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series A 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. It is the further opinion of Bond Counsel that interest (and original issue discount) on the Series A Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS — Tax Exemption" herein.

#### **Professionals Involved in the Offering**

Piper Jaffrey & Co. is the Underwriter of the Series A Bonds and will serve as Placement Agent with respect to the Series B Bonds. Certain proceedings in connection with the issuance and delivery of the Series A Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. See APPENDIX D — FORM OF OPINION OF BOND COUNSEL." Fieldman, Rolapp & Associates is acting as Financial Advisor to the District in connection with the Bonds. Certain legal matters will be passed upon for the County and the District by the Office of the County Counsel, and for the Underwriter by McFarlin & Anderson LLP, Laguna Hills, California, as Underwriter's Counsel. Other professional services have been performed by David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant. Causey Demgen & Moore P.C., Denver, Colorado, will provide escrow verification services.

For information concerning the 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 "LEGAL MATTERS — Financial Interests" herein.

# **Continuing Disclosure**

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system certain annual financial information and operating data. The District will further agree to provide notice of certain enumerated events. These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto for a description of the specific nature of the annual reports to be filed by the District and notices of enumerated events to be provided by the District. Within the last five years, the District has not failed to timely comply with its prior continuing disclosure obligations under Rule 15c2-12(b)(5) as described herein; however, the County and certain related entities have failed to comply in certain respects with prior undertakings. See "CONTINUING DISCLOSURE."

#### **Bond Owners' Risks**

Certain events could affect the timely repayment of the principal of and interest on the Series A 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 Series A Bonds. *The purchase of the Series A Bonds involves significant investment risks, and the Series A Bonds may not be suitable investments for many investors.* See "SPECIAL RISK FACTORS" herein.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Series A Bonds and the Resolution are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Resolution, the Series A Bonds and the constitution and laws of the State as well as the proceedings of the County Board of Supervisors, 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 Series A Bonds, by reference to the Resolution.

Copies of the Resolution, the Continuing Disclosure Certificate and other documents and information referred to herein are available for inspection and (upon request and payment to the County of a charge for copying, mailing and handling) for delivery from the County Treasurer-Tax Collector's office at 625 North Ross Street, Building 11, Santa Ana, California 92701.

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### ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Bond proceeds and prior funds being used to effect the redemption of the Prior Bonds:

Sources of Funds	Series A Bonds	<u>Series B Bonds</u>	<u>Total</u>
Principal Amount of Bonds Plus Original Issue Premium Prior Funds <sup>(1)</sup>	\$ 36,540,000.00 1,905,489.55 5,226,662.10	\$ 31,380,000.00  4,276,359.90	\$ 67,920,000.00 1,905,489.55 9,503,022.00
TOTAL SOURCES	<u>\$ 43,672,151.65</u>	<u>4,278,339.90</u> <u>\$ 35,656,359.90</u>	<u>9,303,022.00</u> <u>\$79,328,511.55</u>
<u>Uses of Funds</u>			
Prior Bonds Redemption Account Reserve Account Cost of Issuance Account <sup>(3)</sup> Underwriter's Discount	\$ 39,892,607.22 3,496,762.50 114,697.93 168,084.00	\$ 32,639,405.91 2,860,987.50 155,966.49	\$ 72,532,013.13 6,357,750.00 <sup>(2)</sup> 270,664.42 <u>168,084.00</u>
TOTAL USES	<u>\$ 43,672,151.65</u>	\$ 35,656,359.90	<u>\$ 79,328,511.55</u>

<sup>(1)</sup> Funds transferred from the Special Tax Fund, which includes the Reserve Account relating to the Prior Bonds. Unexpended proceeds of the Prior Bonds on deposit in the Acquisition and Construction Fund will remain on deposit therein and be disbursed to construct an arterial street adjacent to the District.

<sup>(2)</sup> All amounts in the Reserve Account secured both the Series A Bonds and the Series B Bonds on a parity basis.

<sup>(3)</sup> Includes legal fees, financial advisor fees, special tax consultant fees, Placement Agent fees, Original Purchaser's counsel fees, rating agency fees, and other miscellaneous costs.

## THE REFUNDING PLAN

A portion of the proceeds from the sale of the Bonds will be used along with other funds held by the paying agent under the Prior Supplement to defease the Prior Bonds. The District will transfer to the paying agent for the Prior Bonds (the "Prior Paying Agent") moneys which, together with other amounts held by the Prior Paying Agent, will be sufficient to defease the Prior Bonds and redeem the Prior Bonds maturing on and after August 15, 2014, on February 15, 2014. Upon deposit of certain of the proceeds of the Bonds with the Prior Paying Agent along with the funds held by the Prior Paying Agent into the Redemption Account under the Prior Supplement, the Prior Bonds will be discharged under the Prior Supplement pursuant to which they were issued and the Prior Bonds will no longer be secured by a pledge of and lien on the Special Taxes. See "LEGAL MATTERS — Verification of Mathematical Accuracy."

#### THE SERIES A BONDS

#### **General Provisions**

The Series A Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each February 15 and August 15, commencing on August 15, 2014 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Series A Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the Series A Bonds are held in book-entry form, principal and interest on the Series A Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX E — "BOOK-ENTRY ONLY SYSTEM."

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Series A Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Series A Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date (defined below) but prior to the immediately succeeding Interest Payment Date, in which event interest will 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 will be payable from the date of the Bonds; provided, however, that if at the time of authentication of a Series A Bond, interest is in default, interest on that Series A Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

As used herein, Record Date means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

The Series B Bonds will be issued under the Resolution simultaneously and on a parity with the Series A Bonds in the principal amount of \$31,380,000. The Series B Bonds will be purchased in a private placement. The Series B Bonds are not being offered pursuant to this Official Statement. Interest on the Series B Bonds will also be paid on each Interest Payment Date and principal will be paid annually on each August 15. See "DEBT SERVICE SCHEDULE FOR THE BONDS."

#### **Authority for Issuance**

The Series A Bonds will be issued pursuant to the Act and the Resolution. As required by the Act, the Board of Supervisors of the County has taken the following actions with respect to establishing the District and authorizing the issuance of the Series A Bonds:

**Resolutions of Intention**: On May 18, 2004, the Board of Supervisors of the County adopted a resolution stating its intention to establish the District and to authorize the levy of a special tax, and a resolution declaring its intention to incur bonded indebtedness in an amount not to exceed \$85,000,000 within the District.

**Resolutions of Formation**: Immediately following a noticed public hearing opened on June 29, 2004, the Board of Supervisors of the County, adopted a resolution which established the District, authorized the levy of a special tax within the District, and declared the necessity to incur bonded indebtedness within the District.

**Resolution Calling Election**: The resolution adopted by the Board of Supervisors of the County on June 29, 2004 also called for an election by the landowners in the District for July 13, 2004 on the issues of the levy of the Special Tax, the incurring of bonded indebtedness in the District, and the establishment of an appropriations limit.

*Landowner Election and Declaration of Results*: On July 13, 2004, an election was held at which the landowner within the District approved a ballot proposition authorizing the issuance of up to \$85,000,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for the District. On July 27, 2004, the Board of Supervisors of the County adopted a resolution approving the canvass of the votes and declaring the District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

*Ordinance Levying Special Taxes*: On August 3, 2004, the Board of Supervisors of the County adopted Ordinance No. 04-012 ordering the levy of the Special Tax within the District pursuant to the Rate and Method approved on July 13, 2004.

*Special Tax Lien and Levy*: A Notice of Special Tax Lien for the District was recorded in the real property records of the County on August 11, 2004, as a continuing lien against the property in the District.

**Resolution Authorizing Issuance of the Bonds**: On January 14, 2014, the Board of Supervisors of the County, acting as the legislative body of the District, adopted a resolution approving the issuance of the Bonds.

## **Debt Service Schedule**

The following table presents the annual debt service on the Bonds, assuming there is no optional redemption. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" and "THE SERIES A BONDS — Redemption."

Period Ending	Series A Bonds Principal	Series A Bonds Interest	Series A Bonds Total Debt Service	Series B Bonds Total Debt Service	Total Debt Service
2014	\$	\$ 959,175	\$ 959,175	\$ 1,325,306	\$ 2,284,481
2015		1,827,000	1,827,000	2,537,860	4,364,860
2016		1,827,000	1,827,000	2,622,383	4,449,383
2017		1,827,000	1,827,000	2,717,437	4,544,437
2018		1,827,000	1,827,000	2,807,526	4,634,526
2019		1,827,000	1,827,000	2,897,650	4,724,650
2020		1,827,000	1,827,000	2,992,643	4,819,643
2021		1,827,000	1,827,000	3,087,175	4,914,175
2022		1,827,000	1,827,000	3,191,080	5,018,080
2023		1,827,000	1,827,000	3,283,862	5,110,862
2024		1,827,000	1,827,000	3,390,685	5,217,685
2025		1,827,000	1,827,000	3,495,889	5,322,889
2026		1,827,000	1,827,000	3,604,307	5,431,307
2027	1,975,000	1,827,000	3,802,000	1,735,608	5,537,608
2028	3,920,000	1,728,250	5,648,250	-	5,648,250
2029	4,225,000	1,532,250	5,757,250	-	5,757,250
2030	4,555,000	1,321,000	5,876,000	-	5,876,000
2031	4,900,000	1,093,250	5,993,250	-	5,993,250
2032	5,260,000	848,250	6,108,250	-	6,108,250
2033	5,650,000	585,250	6,235,250	-	6,235,250
2034	6,055,000	302,750	6,357,750		6,357,750
TOTAL	<u>\$ 36,450,000</u>	<u>\$32,121,175</u>	<u>\$ 68,661,175</u>	<u>\$39,689,407</u>	<u>\$ 108,350,582</u>

### **DEBT SERVICE SCHEDULE FOR THE BONDS**

Source: The Underwriter.

#### Redemption

**Optional Redemption.** The Series A Bonds may be redeemed at the option of the District, from any source of available funds, prior to maturity, on any date on or after August 15, 2021, as a whole, or in part from such maturities as are selected by the District at the following redemption prices (expressed as percentages of the principal amount of the Series A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<b>Redemption Dates</b>	<b>Redemption Price</b>
August 15, 2021 through and including August 14, 2022	102%
August 15, 2022 through and including August 14, 2023	101
August 15, 2023 and each date thereafter	100

Notice of Redemption. So long as the Series A Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner. The Paying Agent on behalf, and at the expense, of the District will give notice of any redemption to the Owners of any Series A Bonds designated for redemption electronically in accordance with the procedures of DTC or, if no longer held in book-entry form, by first class mail, postage prepaid, at the respective addresses of the Owners appearing on the Bond Register, at least thirty (30) but not more than sixty (60) days prior to the date fixed for redemption. Neither failure to receive any such notice so given nor any defect therein will affect the validity of the proceedings for the redemption of the Series A Bonds or the cessation of the accrual of interest thereon. The notice of redemption must: (i) specify the CUSIP numbers, the bond numbers and the maturity date or dates of the Series A Bonds selected for redemption; (ii) state the date fixed for redemption and surrender of the Series A Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Series A Bonds are to be redeemed; (v) in the case of Series A Bonds to be redeemed only in part, state the portion of such Series A Bond which is to be redeemed; (vi) state the date of issue of the Series A Bonds as originally issued; (vii) state the rate of interest borne by each Series A Bond being redeemed; (viii) in the case of an optional redemption, state that such notice is conditioned upon sufficient funds being on deposit with the Paying Agent on the redemption date and will be cancelled if sufficient funds are not on deposit on the redemption date; and (ix) state any other descriptive information needed to identify accurately the Series A Bonds being redeemed as shall be specified by the Paying Agent.

The Paying Agent shall also send notice of redemption, no later than the date notice of redemption is mailed to the Owners of the Series A Bonds, to any registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Series A Bonds and Parity Bonds as shall be specified by the Paying Agent, and to one or more of the national information services that the Paying Agent determines are in the business of disseminating notice of redemption of obligations such as the Series A Bonds and Parity Bonds.

Unless funds for the optional redemption of any Series A Bonds are irrevocably deposited with the Paying Agent prior to rendering notice of redemption to the Series A Bond Owners, such notice will state that such redemption is conditional and subject to the deposit of funds with the Paying Agent. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Series A Bonds then called for redemption, such redemption shall not occur and the Paying Agent shall give notice rescinding the notice of redemption in the same manner as the original notice of redemption was sent. Such rescission and cancellation of a notice of redemption shall have no liability to the Series A Bond Owners or any other party related to or arising from such rescission and cancellation of a redemption. The Paying Agent shall mail (or deliver to DTC in accordance with its procedures) notice of any rescission and cancellation of a redemption in the same manner as the original notice of any rescission and cancellation of a redemption.

*Effect of Redemption.* When notice of redemption has been given, and when the amount necessary for the redemption of the Series A Bonds called for redemption is set aside for that purpose in the Redemption Account, the Series A Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Series A Bonds at the place specified in the notice of redemption date, and the Beneficial Owners of the redeemed Series A Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Series A Bonds or portions of Series A Bonds only to the Redemption Account and shall have no rights, except with respect to the payment of the redemption Account.

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

**Registration**. The Paying Agent will keep sufficient books for the registration and transfer of the Series A Bonds. The ownership of the Series A Bonds will be established by the bond registration books held by the Paying Agent.

*Transfer or Exchange*. Whenever any Series A Bond is surrendered for registration of transfer or exchange, the Paying Agent will authenticate and deliver a new Series A Bond or Series A Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Paying Agent will not be required to register transfers or make exchanges of (i) Series A Bonds for a period of 15 days next preceding the date of any selection of the Series A Bonds to be redeemed, or (ii) any Series A Bonds chosen for redemption.

#### No Additional Parity Bonds Except for Refunding

The Resolution authorizes the District to issue additional bonds secured by Net Special Taxes on a parity with the Bonds but only for the purpose of refunding all or a portion of the Bonds or Parity Bonds. For a description of the conditions established in the Resolution for the issuance of Parity Bonds, see Appendix A — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — Defeasance and Parity Bonds."

### SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### **Covenants and Warranties**

The District will covenant in the Resolution to comply with the covenants and warranties therein. See APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — Covenants and Warranty."

### **Limited Obligations**

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Resolution and from no other sources. The Series A Bonds and the Series B Bonds are secured on a parity under the Resolution and in the event that amounts pledged under the Resolution were insufficient to pay the principal and interest on the Bonds when due, the available amounts would be applied to pay a proportionate amount of the debt service due on each series of Bonds. See "APPENDIX B — SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS — Events of Default; Remedies."

The Special Taxes are the primary security for the repayment of the Bonds. Under the Resolution, the District will pledge to repay the Bonds from the Net Special Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses of up to the Administrative Expenses Cap) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense 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 or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Teeter Plan."

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 Paying Agent in the Special Tax Fund (other than the Administrative Expense 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 County, 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 neither general or special obligations of the County nor general obligations of the District, but are special, limited obligations of the District payable solely from the Special Taxes and other amounts pledged under the Resolution as more fully described herein.

## **Special Taxes**

*Authorization and Pledge.* In accordance with the provisions of the Act, the Board of Supervisors of the County established the District on June 29, 2004 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 July 13, 2004, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$85,000,000, and approved the Rate and Method authorizing the Special Tax to be levied to repay indebtedness with respect to the District. A copy of the Rate and Method is attached as APPENDIX A to this Official Statement.

The District will covenant in the Resolution that 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, to replenish the Reserve Account to the Reserve Requirement and to pay the estimated Administrative Expenses.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A — "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 the caption "*Limitation on Special Tax Levy and Potential Impact on Coverage*" below and "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 in the Rate and Method, the text of which is set forth in full in APPENDIX A.

The Rate and Method classifies all Taxable Property, i.e., all assessor's parcels in the District not exempt pursuant to law or the Rate and Method, into five categories: Developed Property, Religious Property, Taxable Public Property, Taxable Property Owner Association Property and Undeveloped Property. "Developed Property" is defined in the Rate and Method to mean, for each fiscal year, all (a) Custom Lot Property or Taxable Public Property, for which a building permit for new construction was issued prior to January 1 of the prior fiscal year. "Custom Lot Property" is defined in the Rate and Method to mean, for each fiscal year, any Assessor's Parcel of Taxable Property (a) that is within a Final Map that was recorded prior to

January 1 of the prior fiscal year, (b) for which (i) escrow has closed prior to January 1 of the prior fiscal year to an owner other than DMB Ladera, or (ii) a building permit for new construction was issued prior to January 1 of the prior fiscal year, and (c) that is a Proposed Custom Lot.

The amount of Special Taxes that the District may levy is limited by the Maximum Special Tax rates set forth in the Rate and Method. Under the Rate and Method, the Maximum Special Tax for a parcel of Developed Property is the greater of (a) the amount derived by the application of the Assigned Special Tax (as described below) or (b) the amount derived by the application of the Backup Special Tax, which is equal to \$33,313.21 per parcel acre for fiscal year 2013-14, and which amount will increase on July 1 of each fiscal year thereafter by an amount equal to 2% of the Backup Special Tax for the previous fiscal year. Under the Rate and Method, the Maximum Special Tax rate for Religious Property, Taxable Property Owner Association Property, Taxable Public Property and Undeveloped Property is \$43,746.36 per acre for fiscal year 2013-14, which amount will escalate by 2% each fiscal year thereafter.

Developed Property is further classified into 13 categories (each a "Land Use Class"): (a) seven categories of Single Family Detached Property (with such categories based on the square footage of residential floor area), (b) two categories of Single Family Attached Property (with such categories based on the square footage of residential floor area), (c) Apartment Property, (d) two categories of Custom Lot Property (with such categories based on the square footage of the lot), and (e) Non-Residential Property. The Assigned Special Tax for fiscal year 2013-14 for each Land Use Category is shown in Table 1 below, which amounts will be increased every July 1 by 2% per fiscal year. In instances where an assessor's parcel contains more than one Land Use Classes located on such parcel and the Maximum Special Tax that can be levied on such property will be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes located on such parcel.

Each fiscal year, the Board of Supervisors, acting in its capacity as the legislative body of the District, will levy the Special Tax up to the maximum rates permitted under the Rate and Method until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax Requirement is defined under the Rate and Method as the amount required in any fiscal year for the District to pay the sum of (a) debt service on all outstanding bonds or other debt issued by the District under the Act ("Outstanding Debt"), (b) periodic costs on the Outstanding Debt, including, but not limited to, credit enhancement and rebate payments thereon, (c) actual or reasonably estimated costs directly related to the administration of the District as provided in the Rate and Method, (d) any amounts required to establish or replenish any reserve funds for all Outstanding Debt; and (e) any amounts required for construction of facilities eligible under the Act. In arriving at the Special Taxes levied in the previous fiscal year are to be taken into account and a credit is to be given for funds available to reduce the annual Special Tax levy.

The Board of Supervisors levies the Special Taxes in four steps, in the following order, until the amount of the levy equals the amount needed to be collected to satisfy the Special Tax Requirement:

<u>First</u>: the Special Tax is levied proportionately on each assessor's parcel of Developed Property at up to 100% of the applicable Assigned Special Tax;

Second: if additional moneys are needed, the Special Tax is levied proportionately on each assessor's parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

<u>Third</u>: if additional moneys are needed, the Special Tax levied on each assessor's parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax is increased proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such assessor's parcel;

<u>Fourth</u>: if additional moneys are needed, then the Special Tax is levied proportionately on each assessor's parcel of Religious Property, Taxable Property Owner Association Property or Taxable Public Property at up to the Maximum Special Tax for Religious Property, Taxable Property Owner Association Property or Taxable Public Property.

The term "proportionately" as used in the above steps means (a) as applied to Developed Property, that the ratio of actual Special Tax levy to the Assigned Special Tax is equal for all assessor's parcels of Developed Property in the District, and (b) as applied to Undeveloped Property, that the ratio of actual Special Tax levy per acre to the Maximum Special Tax per acre is equal for all assessor's parcels of Undeveloped Property in the District.

Notwithstanding the above, the Rate and Method provides that 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 10% as a consequence of delinquency or default by the owner of any other assessor's parcel within the District. The Rate and Method also provides that the Special Tax will be levied on each assessor's parcel for a period not to exceed forty years from the fiscal year in which such assessor's parcel first becomes Developed Property.

Under the Rate and Method, up to 396.79 acres of Property Owner Association Property and/or Public Property are exempt from levy of Special Taxes.

Table 1 below sets forth the current Assigned Special Taxes that may be levied on the property within CFD No. 2004-1 in Fiscal Year 2013-14 based on the development status within CFD No. 2004-1 as of January 1, 2013. Special Taxes may be levied on each Assessor's Parcel for a period not to exceed 40 years from the fiscal year in which such Assessor's Parcel first becomes Developed Property. The first parcels were classified as Developed Property in Fiscal Year 2003-04. Therefore, Special Taxes may be levied in CFD No. 2004-1 on all taxable parcels until fiscal year 2043-44. The final maturity of the CFD No. 2004-1 Bonds is August 15, 2034. As set forth in Table 1 below, the actual Special Tax levy on Developed Property for Fiscal Year 2013-14 was approximately 82.99% of the Assigned Special Tax Rates for Developed Property.

Table 1 below sets forth the Fiscal Year 2013-14 Special Tax rates for each land use category under the Rate and Method.

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#### TABLE 1

#### FISCAL YEAR 2013-14 ASSIGNED SPECIAL TAXES COMMUNITY FACILITIES DISTRICT NO. 2004-1

Description	Land Use Class	Residential Floor Area/(Lot Size)	No. of Units/ (Acres)	Fiscal Year 2013-14 Assigned/Maximum Special Tax Per Unit/(Acre) <sup>(1)</sup>	Fiscal Year 2013-14 Actual Special Tax Per Unit/(Acre)	Aggregate Fiscal Year 2013-14 Tax	Percent of Total
Single-Family Detached	1	4,850 sq. ft.	95	\$ 7,178.92	\$ 5,957.55	\$ 565,967.25	11.82%
Single-Family Detached	2	4,550 – 4,850 sq. ft.	80	6,724.78	5,580.68	446,454.40	9.32
Single-Family Detached	3	4,250 – 4,549 sq. ft.	89	6,246.74	5,183.97	461,373.33	9.64
Single-Family Detached	4	3,950 – 4,249 sq. ft.	80	6,023.26	4,998.51	399,880.80	8.35
Single-Family Detached	5	3,650 – 3,949 sq. ft.	165	5,799.78	4,813.05	794,153.25	16.58
Single-Family Detached	6	3,350 – 3,649 sq. ft.	104	5,675.49	4,709.90	489,830.64	10.23
Single-Family Detached	7	< 3,350 sq. ft.	79	5,162.79	4,284.43	338,470.76	7.07
Single-Family Attached	8	$\geq$ 2,000 sq. ft.	82	4,133.82	3,430.52	281,303.46	5.87
Single-Family Attached	9	< 2,000 sq. ft.	0	3,445.45	$0.00^{(2)}$	0.00	0.00
Apartment Property	10	N/A	0	974.00	$0.00^{(2)}$	0.00	0.00
Custom Lot Property	11	> (14,000 sq. ft.)	63 <sup>(3)</sup>	10,855.02	9,008.23	567,518.49	11.85
Custom Lot Property	12	$\leq$ (14,000 sq. ft.)	69 <sup>(4)</sup>	7,744.19	6,426.65	443,439.54	9.26
Non-Residential Property	13	N/A	(0.00)	(16,304.64)	$(0.00)^{(2)}$	0.00	0.00
Undeveloped Property	N/A		(33.02)	(43,746.36)	(0.00)	0.00	0.00
Totals			. ,			\$4,788,391.92	100.00%

Assigned Special Tax rates for Developed Property (Tax Classes 1-13) and Maximum Special Tax rate for Undeveloped Property. The Maximum Special Tax for a parcel of Developed Property is equal to the greater of (i) the Backup Special Tax or (ii) the Assigned Special Tax determined by reference to Table 1 of Section C of the Rate and Method. The Fiscal Year 2013-14 Backup Special Tax is \$33,313.21 per acre for Developed Property. The Backup, Assigned, and Maximum Special Tax rates escalate at 2% per year.

<sup>(2)</sup> For Fiscal Year 2013-14, there were no units/acres in these tax classes.

<sup>(3)</sup> Of the 63 units in Tax Class 11, 41 had building permits as of January 1, 2013.

<sup>(4)</sup> Of the 69 units in Tax Class 12, 46 had building permits as of January 1, 2013.

Source: David Taussig & Associates, Inc.

In Fiscal Year 2013-14, Special Taxes were levied on 132 parcels of Custom Lot Property. As of November 18, 2013, 37 of the 132 parcels of Custom Lot Property had not been issued building permits and were owned by individual owners. In Fiscal Year 2013-14, the Special Tax levy on these 37 parcels was \$279,091.54, which accounted for 5.83% of the total Special Tax levy within the District.

*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 County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for the District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the County's share of such taxes (including the Special Taxes) to the County, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the County in the Orange County Investment Pool (the "Pool") which is invested by the County Treasurer. If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that District property taxes held in the Pool (including the Special Taxes), if any, could be temporarily unavailable to the County. The District participates in the County's Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan allows counties to allocate 100

percent of property taxes billed to participating taxing entities in exchange for retaining future delinquent tax payments, penalties and interest.

The District will make certain covenants in the Resolution 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 will covenant 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 where such reduction would reduce the maximum Special Taxes below current levels unless the District receives a certificate from one or more Independent Financial Consultants or Independent Accountants which, when taken together, certify that, among other things, 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 then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses Cap plus gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved. Second, the District will covenant not to permit the tender of Bonds or Parity Bonds in payment of any Special Taxes. See APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS."

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. In addition to the obligation to pay Special Taxes, properties in the District are subject to other assessments and special taxes as set forth under Table 3 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the County or the landowners in the District. See "SPECIAL RISK FACTORS — Parity Taxes and Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled "SPECIAL RISK FACTORS."

Under the terms of the Resolution, all Special Tax revenues received by the District are to be deposited in the Special Tax Fund. Special Tax revenues deposited in the Special Tax Fund are to be applied under the Resolution in the following order of priority: (i) to deposit up to an amount equal to the Administrative Expenses Cap (\$75,000 for Fiscal Year 2013-14 subject to 2% escalation each fiscal year thereafter) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses; (ii) to pay the interest on the Bonds when due; (iii) to pay principal of the Bonds when due; (iv) to replenish the Reserve Account to the Reserve Requirement; (v) to the Redemption Account to pay principal and premium, if any, on Bonds called for redemption; (vi) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in (i) above; (vii) to make any required transfers to the Rebate Fund; and (viii) for any other lawful purpose of the District. See APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS."

**Proceeds of Foreclosure Sales.** The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within the District resulting from a landowner's failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Special Tax revenues pledged to the payment of principal and interest on the Bonds under the Resolution, except any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County.

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 of Supervisors of the County, 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 will covenant for the benefit of the Owners of the Bonds that it will commence and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$25,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes in a amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Account is less than the Reserve Requirement. Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement.

See APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS —Covenants and Warranty" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Series A 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 County and the District. See "SPECIAL RISK FACTORS — Bankruptcy and Foreclosure" herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios" 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 or the County 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. 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.

#### Potential Debt Service Coverage from Special Taxes

*Calculation of Levy.* Special Taxes will be levied each year in an amount equal to the annual Special Tax Requirement determined in accordance with the Rate and Method. The annual Special Tax Requirement is calculated to include an amount equal to the debt service on the Bonds in the ensuing Bond Year plus the amount required to maintain the Reserve Account at the Reserve Requirement plus the amount needed to pay Administrative Expenses. In arriving at the Special Taxes levied in the previous fiscal year are to be taken into account and a credit is to be given for funds available to reduce the annual Special Tax levy. The annual Special Tax levy in Fiscal Year 2013-14 totaled \$4,788,391.92, with \$79,365 of this amount budgeted to pay Administrative Expenses.

The annual Special Tax levy on Developed Property in Fiscal Year 2013-14 was approximately 82.99% of the Assigned Special Tax Rates set forth in the Rate and Method and future levies, absent delinquencies, are projected to be approximately 72% of the Assigned Special Tax Rates. Based on the land use classifications made under the Rate and Method as of January 1, 2013, if Special Taxes were levied at the Assigned Special Tax Rates on Developed Property, the Special Taxes available to pay debt service on the Bonds after the payment of Administrative Expenses in an amount equal to the Administrative Expenses Cap would be approximately 140% of the debt service due in each Bond Year. In the event of Special Tax delinquencies, as discussed below, the District will, in all likelihood, be precluded from levying the Special Tax at the maximum Assigned Special Tax Rates.

*Limitation on Special Tax Levy and Potential Impact on Coverage.* Pursuant to Section 53321(d) of the Mello-Roos Act and the Rate and Method, under no circumstances may Special Taxes levied against any parcel of property used for private residential purposes be increased by more than ten percent (10%) as a consequence of delinquency or default by the owner of any other parcel within the District. Therefore, it is possible that Special Taxes may not be levied up to 100% of the Assigned Special Tax rates in any particular fiscal year as a consequence of Special Tax delinquencies in the District.

Given the foregoing, investors in the Series A Bonds should assume that the maximum amount of Special Taxes that could be levied in each Bond Year in the District would result in Net Special Taxes of not more than 110% of debt service on the Series A Bonds in each Bond Year.

#### **Teeter Plan**

The District is included in the County's Teeter Plan and, as described below, so long as the Teeter Plan remains in effect with respect to the District, the District will be paid 100% of the amount of Special Taxes levied regardless of whether the County has actually collected the levies. To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help to protect the Owners of the Series A Bonds from the risk of delinquencies in Special Taxes.

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Section 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as "bank" and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. A county benefits from the Teeter Plan by retaining penalties associated with these delinquent taxes when they are paid and the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of the county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Board of Supervisors adopted the Teeter Plan on June 29, 1993 and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the District, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See "SPECIAL RISK FACTORS – Teeter Plan Termination." The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of

the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

#### **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 an amount equal to the Reserve Requirement. The Resolution provides that the amount to be maintained in the Reserve Account as the Reserve Requirement shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the maximum annual debt service on the then Outstanding Bonds and any Parity Bonds; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding Bonds and any Parity Bonds. As of the date of issuance of the Bonds the Reserve Requirement will be fully funded in the amount of \$6,357,750.00.

Subject to the limits on the maximum annual Special Tax which may be levied within the District in accordance with the Rate and Method set forth in APPENDIX A, the District will covenant 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 and any Parity Bonds, to the extent other monies are not available therefor; (ii) redeem the Bonds and any Parity Bonds in whole or in part; and (iii) pay the principal and interest due in the final year of maturity of a series of the Bonds and any Parity Bonds. See APPENDIX B — "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS — Reserve Account" herein.

# THE DISTRICT

#### **General Description of the District**

The District is located in the unincorporated southeasterly portion of the County, near southeast Mission Viejo, west of Antonio Parkway and south of O'Neill Drive. The District encompasses approximately 16% of the Ladera Ranch development (based on gross acreage) and the development of the property in the District was the sixth and final phase of development in Ladera Ranch. The District consists of approximately 645 gross acres of land, of which approximately 243.76 acres are subject to Special Taxes. As of January 1, 2013, the District consisted of 774 single family homes, 132 parcels of Custom Lot Property, and 100 parcels of Undeveloped Property which are Proposed Custom Lots.

As of January 1, 2013, building permits had been issued for 87 of the 132 parcels categorized as Custom Lot Property for Fiscal Year 2013-14. As of November 18, 2013, of these 132 parcels, building permits had been issued for 95 parcels, leaving 37 parcels of Custom Lot Property and 100 parcels of Proposed Custom Lots which had not been issued building permits. As of November 15, 2013, of the 95 custom lots which had been issued building permits, 74 had been issued certificates of occupancy. As of November 19, 2013, all 37 parcels of Custom Lot Property which had not been issued building permits were owned by individual owners.

In Fiscal Year 2014-15, the District expects an additional 32 parcels to be categorized as Custom Lot Property under the Rate and Method, bringing the total to 164. This results from the sale by DMB Ladera of three of the Proposed Custom Lots to individuals, 27 Proposed Custom Lots to Warmington Legacy (five of which have been sold by Warmington Legacy to individuals), and two building permits being issued on Custom Lots owned by DMB Ladera.

A portion of the proceeds of the Prior Bonds issued by the District was used to acquire and construct various public facilities authorized to be acquired or constructed by the District. The completed improvements

include: various streets and street facilities, including traffic signals; water transmission and distribution facilities; sewage and wastewater collection and transmission facilities; and certain other public facilities including bridges, pedestrian bridges and tunnels, roadways, parks, regional hiking and biking trails, storm drains, traffic signals, sheriff's substation and equipment and library facilities and equipment. The remaining amounts in the Acquisition and Construction Fund are to be expended on an arterial street adjacent to the District.

Table 2 below sets forth the net assessed value and the annual change in net assessed value for fiscal years 2007-08 through 2013-14 for Developed Property in the District.

# TABLE 2

# **ANNUAL CHANGE IN ASSESSED VALUE COMMUNITY FACILITIES DISTRICT NO. 2004-1**

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Year	Assessed Value <sup>(1)</sup>	Percent Change (Overall)	Assessed Value for Developed Residential Property With Building Permit <sup>(1)(2)</sup>	Number of Developed Residential Parcels With Building Permit <sup>(2)</sup>	Average Assessed Value Per Developed Residential Parcel With Building Permit <sup>(2)</sup>	Average Percent Change (Developed Residential Parcel With Building Permit) <sup>(2)</sup>
2007-2008	\$1,140,247,423	NA	\$1,029,797,273	768	\$1,340,882	NA
2008-2009	\$1,185,127,115	3.94%	\$1,102,841,779	818	\$1,348,217	0.55%
2009-2010	\$1,025,163,553	-13.50%	\$952,697,676	835	\$1,140,955	-15.37%
2010-2011	\$974,431,343	-4.95%	\$924,712,970	841	\$1,099,540	-3.63%
2011-2012	\$970,106,272	-0.44%	\$928,057,520	847	\$1,095,700	-0.35%
2012-2013	\$957,608,780	-1.29%	\$917,764,874	850	\$1,079,723	-1.46%
2013-2014	\$970,018,401	1.30%	\$931,743,649	861	\$1,082,165	0.23%

(1) As of January 1 of each year provided by the County of Orange Assessor. Assessed value is the sum of land value and improvement value. (2)

Based on building permits issued as of January 1 of each year.

Source: David Taussig & Associates, Inc.

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#### **Estimated Direct and Overlapping Indebtedness**

Within the boundaries of the District 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 have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within the District. The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within the District for Fiscal Year 2013-14 is shown in Table 3 below.

# TABLE 3

# DIRECT AND OVERLAPPING DEBT SUMMARY COMMUNITY FACILITIES DISTRICT NO. 2004-1

Overlapping District	Actual Fiscal Year 2013-14 Total Levy	Amount of Levy on Parcels in CFD No. 2004-1	Percent of Levy on Parcels in CFD No. 2004-1	Total Debt Outstanding <sup>(1)</sup>	CFD No. 2004-1 Share of Total Debt Outstanding
Capistrano Unified School District CFD No. 98-2	\$10,137,865	\$1,990,507	19.6344%	\$104,839,491	\$20,584,582
Metropolitan Water District G.O. Bonds	\$94,962,540	\$33,832	0.0356%	\$165,085,000	\$58,814
Santa Margarita Water District ID No. 4B	\$892,969	\$108,801	12.1842%	\$11,095,000	\$1,351,837
Santa Margarita Water District ID No. 4 <sup>(2)</sup>	\$2,739,572	\$429,323	15.6712%	\$26,926,767	\$4,219,743
		Estimated Share	e of Overlapping I	Debt Allocable	
		to the District:			\$26,214,975
	Plus the CFD N	Bonds <sup>(3)</sup> :	\$36,540,000		
	Plus the CFD No. 2004-1 Series 2014B Refunding Bonds <sup>(3)</sup> : Estimated Share of Direct and Overlapping Debt Allocable to the				\$31,380,000
	District:				\$94,134,975

<sup>(1)</sup> As of September 2, 2013.

<sup>(2)</sup> Based on allocation by the Santa Margarita Water District to the Ladera Ranch area for Fiscal Year 2013-14 and on information provided by the Santa Margarita Water District staff.

<sup>(3)</sup> Based on final bond sizing.

Source: David Taussig & Associates, Inc.

In addition to the bonded indebtedness set forth in Table 3, new community facilities districts or special assessment districts may be formed which include all or a portion of the District, and, upon approval of the registered voters or landowners in such districts, as applicable, may issue more bonds and levy additional special taxes or other taxes and assessments. In addition to the Special Taxes, the property owners in the District will be required to pay the general *ad valorem* property taxes for their parcels. See "SPECIAL RISK FACTORS — Parity Taxes and Special Assessments."

# **Expected Tax Burden**

The estimated tax rates and amounts presented herein are based on information for Fiscal Year 2013-14. The actual amounts charged may vary and may increase in future years. For Fiscal Year 2013-14, the projected total effective tax rate for single-family property (which does not include Custom Lot Property) is estimated to range from approximately 1.70% to 1.99% of the assessed value for each parcel and were the Special Taxes levied at the full amount of the Assigned Special Tax, the total effective tax rate would range from approximately 1.91% to 2.13% of assessed value. For Fiscal Year 2013-14, the projected total effective tax rate for Custom Lot Property is estimated to range from approximately 1.57% to 3.13% of assessed value and were the Special Taxes levied at the full amount of the Assigned Special Tax, the total effective tax rate would range from approximately 1.72% to 5.10%. Table 4 below sets forth the estimated effective tax rate ranges and maximum effective tax rate ranges in Fiscal Year 2013-14 for single-family property, Custom Lot Property which has been issued a building permit, and Custom Lot Property which has not been issued a building permit. The expected effective tax rate ranges for Custom Lot Property which has not been issued a building permit are higher as the assessed values of these parcels only include land value. It is not expected that the maximum effective tax rates will be reached. Tables 5A through 5C below set forth estimated property tax bills for residential units and Custom Lot Property in the District.

# TABLE 4

# ESTIMATED FISCAL YEAR 2013-14<sup>(1)</sup> EFFECTIVE TAX RATE RANGES

Property Classification	Number of Parcels	Expected Effective Tax Rate Range <sup>(2)</sup>	Maximum Effective Tax Rate Range <sup>(2)</sup>
Single-Family Property	774	1.70% - 1.99%	1.91% - 2.13%
Custom Lot Property with Building Permit and Improvement Value Custom Lot Property without Building Permit	87 45	1.57% - 1.64% 2.69% - 3.13%	1.72% - 1.81% 4.73% - 5.10%

<sup>(1)</sup> Based on ownership status as of January 1, 2013.

<sup>(2)</sup> Expressed as a percentage of assessed value.

Source: David Taussig & Associates, Inc.

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## **TABLE 5A**

# SAMPLE PROPERTY TAX BILL ESTIMATED FOR FISCAL YEAR 2013-14 FOR RESIDENTIAL PROPERTY TAX CLASS 5 (SFD 3,650 – 3,949 SF)

Assessed Value from and Dreamants Tamas		Percent of Net AV	Expected Amount	Maximum Amount
Assessed Valuation and Property Taxes TOTAL ASSESSED VALUE <sup>(1)</sup>	¢055 021	Net Av	Amount	Amount
	\$955,931			
NET ASSESSED VALUE <sup>(1)</sup>	\$948,931			
LAND ASSESSED VALUE <sup>(1)</sup>	\$221,996			
Unit Size for Single Family Detached Property <sup>(2)</sup>	3,788 sq. ft.			
Lot Size for Single Family Detached Property <sup>(3)</sup>	9,375 sq. ft.			
AD VALOREM PROPERTY TAXES <sup>(4)</sup>				
Basic Levy		1.00000%	\$9,486.31	
Metropolitan Water District G.O. Bonds		0.00350%	\$33.21	
Santa Margarita Water District ID No. 4	0.16060% of land value	0.03757%	\$356.53	
Santa Margarita Water District ID No. 4D <sup>(11)</sup>	0.04070% of land value	0.00952%	<u>\$90.35</u>	
Total General Property Taxes and Overrides		1.05059%	\$9,969.40	
ASSESSMENTS, SPECIAL TAXES AND PAR	CEL CHARGES			
Mosquito & Fire Ant Assessment <sup>(5)</sup>			\$5.02	
Vector Control Charge <sup>(6)</sup>			\$1.92	
Metropolitan Water District West Standby Charg	ge <sup>(7)</sup>		\$10.08	
Santa Margarita Water District ID No. 4 D/S Cha	arge <sup>(8)</sup>		\$16.71	
Capistrano Unified School District CFD No. 98-	2 <sup>(9)</sup>		\$2,109.41	\$2,109.41
County of Orange CFD No. 2004-1 <sup>(10)</sup>			\$4,813.05	<u>\$7,169.42</u>
Total Assessments and Parcel Charges			\$6,956.19	\$9,312.56
PROJECTED TOTAL PROPERTY TAXES			\$16,925.59	\$19,281.96
Projected Total Effective Tax Rate (as % of A	ssessed Value)		1.77059%	2.01709 %

<sup>(1)</sup> Based on average assessed value for 165 Tax Class 5 units as of January 1, 2013 provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 165 Tax Class 5 units.

<sup>(3)</sup> Based on the average lot size for 165 Tax Class 5 units.

<sup>(6)</sup> Based on the Fiscal Year 2013-14 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>&</sup>lt;sup>(4)</sup> Based on actual Fiscal Year 2013-14 ad valorem rates.

<sup>&</sup>lt;sup>(5)</sup> Based on the Fiscal Year 2013-14 rate of \$5.02 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>&</sup>lt;sup>(7)</sup> Based on the Fiscal Year 2013-14 rate of \$10.08 per parcel or per acre, whichever is greater.

<sup>&</sup>lt;sup>(8)</sup> Based on the Fiscal Year 2013-14 rate of \$16.71 per parcel.

<sup>&</sup>lt;sup>(9)</sup> Projected and maximum amount based on the Capistrano Unified School District CFD No. 98-2 Fiscal Year 2013-14 average Special Tax levy for 165 Tax Class 5 units. The Assigned and Backup Special Tax rates escalate at 2% per year once a parcel has been classified as Developed Property.

<sup>(10)</sup> Projected amount based on the CFD No. 2004-1 Fiscal Year 2013-14 actual Special Tax rate of \$4,813.05 per unit for Tax Class 5 property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Fiscal Year 2013-14 Assigned Special Tax rate is \$5,799.78 per unit and the Fiscal Year 2013-14 Backup Special Tax rate is \$33,313.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

<sup>&</sup>lt;sup>(11)</sup> ID 4D ad valorem property taxes are applied to repay ID 4B general obligation bonds.

Source: David Taussig & Associates, Inc.; the County; Metropolitan Water District; Santa Margarita Water District.

#### **TABLE 5B**

# SAMPLE PROPERTY TAX BILL ESTIMATED FOR FISCAL YEAR 2013-14 CUSTOM LOT PROPERTY TAX CLASS 12 (LOT SIZE ≤ 14,000 SF) INDIVIDUALLY-OWNED WITH BUILDING PERMIT

Assessed Valuation and Property Taxes		Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$1,881,360	1100 11 1	mount	2 mount
NET ASSESSED VALUE <sup>(1)</sup>	\$1,874,360			
LAND ASSESSED VALUE <sup>(1)</sup>	\$446,911			
Unit Size for Single Family Detached Property <sup>(2)</sup>	5,811 sq. ft.			
Lot Size for Single Family Detached Property <sup>(3)</sup>	12,145 sq. ft.			
AD VALOREM PROPERTY TAXES <sup>(4)</sup>				
Basic Levy		1.00000%	\$18,743.60	
Metropolitan Water District G.O. Bonds		0.00350%	\$65.60	
Santa Margarita Water District ID No. 4	0.16060% of land value	0.03829%	\$717.74	
Santa Margarita Water District ID No. 4D <sup>(11)</sup>	0.04070% of land value	<u>0.00970%</u>	<u>\$181.89</u>	
Total General Property Taxes and Overrides		1.05150%	\$19,708.83	
ASSESSMENTS, SPECIAL TAXES AND PAR	CEL CHARGES			
Mosquito & Fire Ant Assessment <sup>(5)</sup>			\$5.02	
Vector Control Charge <sup>(6)</sup>			\$1.92	
Metropolitan Water District West Standby Charg	e <sup>(7)</sup>		\$10.08	
Santa Margarita Water District ID No. 4 D/S Cha			\$16.71	
Capistrano Unified School District CFD No. 98-2	-		\$3,292.44	\$3,292.44
County of Orange CFD No. 2004-1 <sup>(10)</sup>			\$6,426.65	\$9,288.44
Total Assessments and Parcel Charges			\$9,752.82	\$12,614.61
PROJECTED TOTAL PROPERTY TAXES			\$29,461.65	\$32,323.44
Projected Total Effective Tax Rate (as % of A	ssessed Value)		1.56598%	1.71809%

(1) Based on average assessed value for 40 individually-owned Tax Class 12 units with building permits and improvement value as of January 1, 2013 provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

<sup>(2)</sup> Based on the average unit size for 40 individually-owned Tax Class 12 units with building permits and improvement value as of January 1, 2013.

<sup>(3)</sup> Based on the average lot size for 40 individually-owned Tax Class 12 units with building permits and improvement value as of January 1, 2013.

<sup>(4)</sup> Based on actual Fiscal Year 2013-14 ad valorem rates.

<sup>(5)</sup> Based on the Fiscal Year 2013-14 rate of \$5.02 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>(6)</sup> Based on the Fiscal Year 2013-14 rate of \$1.92 per benefit unit. Residential parcels are assessed at 1 benefit unit.

<sup>(7)</sup> Based on the Fiscal Year 2013-14 rate of \$10.08 per parcel or per acre, whichever is greater.

<sup>(8)</sup> Based on the Fiscal Year 2013-14 rate of \$16.71 per parcel.

(9) Projected and maximum amount based on the Capistrano Unified School District CFD No. 98-2 Fiscal Year 2013-14 average Special Tax levy for 40 individually-owned Tax Class 12 units with building permits and improvement value as of January 1, 2013. The Assigned and Backup Special Tax rates escalate at 2% per year once a parcel has been classified as Developed Property.

(Footnotes continued on following page)

#### (Continued from previous page)

(10) Projected amount based on the CFD No. 2004-1 Fiscal Year 2013-14 actual Special Tax rate of \$6,426.65 per unit for Tax Class 12 property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Fiscal Year 2013-14 Assigned Special Tax rate is \$7,744.19 per unit and the Fiscal Year 2013-14 Backup Special Tax rate is \$33,312.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.

<sup>(11)</sup> ID 4D ad valorem property taxes are applied to repay ID 4B general obligation bonds.

Source: David Taussig & Associates, Inc.; the County; Metropolitan Water District; Santa Margarita Water District.

# TABLE 5C

# SAMPLE PROPERTY TAX BILL ESTIMATED FOR FISCAL YEAR 2013-14 CUSTOM LOT PROPERTY TAX CLASS 12 (LOT SIZE ≤ 14,000 SF) INDIVIDUALLY-OWNED WITH NO BUILDING PERMIT

Assessed Valuation and Property Taxes		Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE <sup>(1)</sup>	\$368,576	I CLAV	Amount	Amount
NET ASSESSED VALUE <sup>(1)</sup>	\$368,576			
LAND ASSESSED VALUE <sup>(1)</sup>	\$368,576			
	\$500,570			
Unit Size for Single Family Detached Property <sup>(2)</sup>	) 0 sq. ft.			
Lot Size for Single Family Detached Property <sup>(3)</sup>	12,172 sq. ft.			
AD VALOREM PROPERTY TAXES <sup>(4)</sup>				
Basic Levy		1.00000%	\$3,685.76	
Metropolitan Water District G.O. Bonds		0.00350%	\$12.90	
Santa Margarita Water District ID No. 4	0.16060% of land value	0.16060%	\$591.93	
Santa Margarita Water District ID No. 4D <sup>(11)</sup>	0.04070% of land value	0.04070%	<u>\$150.01</u>	
Total General Property Taxes and Overrides		1.20480%	\$4,440.60	
ASSESSMENTS, SPECIAL TAXES AND PAR	CEL CHARGES			
Mosquito & Fire Ant Assessment <sup>(5)</sup>			\$2.50	
Vector Control Charge <sup>(6)</sup>			\$0.10	
Metropolitan Water District West Standby Charg	ge <sup>(7)</sup>		\$10.08	
Santa Margarita Water District ID No. 4 D/S Ch			\$16.71	
Capistrano Unified School District CFD No. 98-			\$0.00	\$3,650.57
County of Orange CFD No. 2004-1 <sup>(10)</sup>			\$6,426.65	<u>\$9,308.84</u>
Total Assessments and Parcel Charges			\$6,456.04	\$12,988.80
PROJECTED TOTAL PROPERTY TAXES			\$10,896.64	\$17,429.40
Projected Total Effective Tax Rate (as % of A	ssessed Value)		2.95642%	4.72885%

<sup>(1)</sup> Based on average assessed value for 22 individually-owned Tax Class 12 units with no building permits as of January 1, 2013 provided by the County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

(2) Based on the average unit size for 22 individually-owned Tax Class 12 units with no building permits as of January 1, 2013.

<sup>(4)</sup> Based on actual Fiscal Year 2013-14 ad valorem rates.

(Footnotes continued on following page)

<sup>(3)</sup> Based on the average lot size for 22 individually-owned Tax Class 12 units with no building permits as of January 1, 2013

#### (Continued from previous page)

- <sup>(5)</sup> Based on the Fiscal Year 2013-14 rate of \$2.50 per benefit unit. Vacant residential parcels are assessed at 0.5 benefit units per vacant parcel.
- <sup>(6)</sup> Based on the Fiscal Year 2013-14 rate of \$0.10 per benefit unit. Vacant residential parcels are assessed at 0.5 benefit units per vacant parcel.
- <sup>(7)</sup> Based on the Fiscal Year 2013-14 rate of \$10.08 per parcel or per acre, whichever is greater.
- <sup>(8)</sup> Based on the Fiscal Year 2013-14 rate of \$16.71 per parcel.
- <sup>(9)</sup> Projected amount is \$0.00 as there is no Capistrano Unified School District CFD No. 98-2 Fiscal Year 2013-14 levy on Undeveloped Property. Maximum amount based on the Fiscal Year 2013-14 Maximum Special Tax rate of \$13,064.15 per acre for Undeveloped Property. The Maximum Special Tax Rate escalates at 2% per year.
- (10) Projected amount based on the CFD No. 2004-1 Fiscal Year 2013-14 actual Special Tax rate of \$6,426.65 per unit for Tax Class 12 property. Maximum amount based on the greater of the Assigned Special Tax or the Backup Special Tax, where the Fiscal Year 2013-14 Assigned Special Tax rate is \$7,744.19 per unit and the Fiscal Year 2013-14 Backup Special Tax rate is \$33,313.21 per parcel acre. The Assigned and Backup Special Tax rates escalate at 2% per year.
- <sup>(11)</sup> ID 4D ad valorem property taxes are applied to repay ID 4B general obligation bonds.

Source: David Taussig & Associates, Inc.; the County; Metropolitan Water District; Santa Margarita Water District.

#### **Principal Taxpayers**

Table 6 below sets forth the largest taxpayers within the District for Fiscal Year 2013-14 and the delinquency amounts and rates for the first installment of Fiscal Year 2013-14 for such taxpayers as of January 27, 2014. In Fiscal Year 2013-14, the individual homeowners within the District are responsible for 97.69% of the total Special Tax levy.

## TABLE 6 COMMUNITY FACILITIES DISTRICT NO. 2004-1 TAXPAYER SUMMARY

Owner <sup>(1)</sup>	Number of Parcels Taxed	Actual Fiscal Year 2013-14 Special Tax Levy	Percent of Total Levy	Delinquent Special Tax as of January 27, 2014 <sup>(2)</sup>	Delinquency Rate <sup>(2)</sup>
Warmington Legacy	14	\$110,626	2.31%	\$0	0.00%
Individual Owners	892	\$4,677,766	97.69%	\$86,304	3.60%
Total	906	\$4,788,392	100.00%	\$86,304	3.60%

Ownership as of January 1, 2013, provided by the County Assessor. No owner responsible for more than 2.50% of the Fiscal Year 2013-14 Special Tax levy.
 Tax levy.

(2) Total amount delinquent for the first installment of Fiscal Year 2013-14. Delinquency data as of January 27, 2014 provided by the County Assessor.

Source: David Taussig & Associates, Inc.

#### **Delinquency History**

Table 7 below summarizes the Special Tax delinquencies for property within the boundaries of the District for Fiscal Year 2007-08 through the first installment for Fiscal Year 2013-14. The highest fiscal year end delinquency rate in any of these years was 17.92%. The delinquency rate was 3.60% as of January 27, 2014. Currently, there are no foreclosure actions in process for parcels within the District.

# TABLE 7 COMMUNITY FACILITIES DISTRICT NO. 2004-1 SPECIAL TAX DELINQUENCY HISTORY<sup>(1)</sup>

			Delinqu	encies at Fiscal Y	Year End	Delinquer	ncies as of Janua	ry 27, 2014
Fiscal Year	Amount Levied	Parcels Levied	Parcels Delinquent <sup>(2)</sup>	Amount Delinquent <sup>(2)</sup>	Percent Delinquent <sup>(2)</sup>	Parcels Delinquent <sup>(3)</sup>	Amount Delinquent <sup>(3)</sup>	Percent Delinquent <sup>(3)</sup>
2007-08	\$3,864,148	831	N/A	\$692,635	17.92%	0	\$ 0.00	0.00%
2008-09	3,909,286	873	142	562,284	14.38	0	0.00	0.00
2009-10	4,228,467	886	76	311,452	7.37	2	6,039	0.14
2010-11	4,320,995	892	31	128,443	2.97	1	4,792	0.11
2011-12	4,257,369	892	40	145,468	3.42	4	19,387	0.46
2012-13	4,697,119	892	23	95,026	2.02	9	31,891	0.68
2013-14	4,788,392	892	N/A	N/A	N/A	32 <sup>(4)</sup>	86,304 <sup>(4)</sup>	3.60 <sup>(4)</sup>

<sup>(1)</sup> The District a participant in the County's Teeter Plan pursuant to which the County pays the District 100% of the amount levied without regard to delinquencies.

<sup>(2)</sup> As of June 30 fiscal year end of year levied.

<sup>(3)</sup> Delinquency data as of January 27, 2014 provided by the County Tax Collector.

<sup>(4)</sup> Delinquency data includes only includes the first installment for Fiscal Year 2013-14.

Source: David Taussig & Associates, Inc.

The County has adopted a Teeter Plan for the collection and payment of taxes pursuant to which it pays 100% of the amount levied to participating agencies without regard to the actual amount of collections. The District participates in the County's Teeter Plan and, as a result, the District receives 100% amount levied without regard to delinquencies. Penalties and interest received on the collection of delinquent Special Taxes are paid to the County but are not pledged under the Resolution to repay the Bonds.

#### **Estimated Assessed Value-to-Lien Ratios**

Table 8 below sets forth the estimated assessed value-to-lien ratios for various categories of property ownership within the District based upon ownership status as of January 1, 2013 and the assessed values included on the Fiscal Year 2013-14 County Assessor's roll. The assessed value of the taxable parcels within the District for Fiscal Year 2013-14 is \$970,018,401. The estimated assessed value-to-lien ratio of the property within the District based upon the principal amount of the Bonds, overlapping debt payable from other taxes and assessments levied on the property within the District, including general obligation debt, and the assessed values included on the 2013-14 County Assessor's roll is 10.30 to 1. Excluding the overlapping general obligation debt, the ratio of the assessed value of taxable property within the District to the total principal amount of all direct and overlapping special tax bonds payable from taxes levied within the District (\$88,504,582, inclusive of the Bonds) is approximately 10.96 to 1.

Because a parcel's assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel's market value. No assurance can be given that any of the value-to-lien ratios in Table 8 will be maintained during the period of time that the Series A Bonds are outstanding. The District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See "SPECIAL RISK FACTORS—Property Values; Value-to-Lien Ratios."

Table 9 below sets forth the estimated value-to-lien ratios for parcels of Developed Property within the District by various ranges based upon the principal amount of the Bonds and the overlapping debt information included in Table 8.

#### TABLE 8

# ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS BY LAND USE TYPE

Property Classification/Owner <sup>(1)</sup>	Number of Parcels	CFD No. 2004- 1 Actual Fiscal Year 2013-14 Levy	CFD No. 2004-1 Bonds <sup>(2)</sup>	Capistrano Unified School District CFD No. 98-2 Bonds Outstanding <sup>(3)</sup>	Metropolitan Water District Bonds Outstanding <sup>(3)</sup>	Santa Margarita Water District ID No. 4B Bonds Outstanding <sup>(3)</sup>	Santa Margarita Water District ID No. 4 Bonds Outstanding <sup>(3)</sup>	Total Direct and Overlapping Debt	Assessed Value <sup>(1)</sup>	Estimated Assessed Value to Lien Ratios
Developed Property <sup>(4)</sup>										
<b>Residential Property</b>										
Single-Family Property	774	\$3,777,434	\$53,580,265	\$17,442,362	\$43,631	\$ 935,490	\$2,920,120	\$74,924,868	\$769,584,959	10.27
Custom Lot Property <sup>(5)</sup>										
Warmington Legacy:										
With Building Permit	8	59,158	839,115	190,540	286	15,733	49,110	1,094,785	4,703,664	4.30
With No Building Permit	6	51,468	730,035	0	141	11,741	36,650	778,567	2,321,786	2.98
Individual Owners:										
With Building Permit	79	605,806	8,592,933	2,951,679	9,568	207,062	646,342	12,407,584	157,455,026	12.69
With No Building Permit	39	294,526	4,177,652	0	979	81,376	254,015	4,514,022	16,092,092	3.56
Subtotal Custom Lot	132	1,010,958	14,399,735	3,142,219	10,974	315,913	986,117	18,794,958	180,572,568	9.61
Subtotal Developed Property	906	\$4,788,392	\$67,920,000	\$20,584,582	\$57,606	\$1,251,402	\$3,906,237	\$93,719,827	\$950,157,527	10.14
Undeveloped Property <sup>(6)</sup>										
Proposed Custom Lot	100	0	0	0	1,208	100,435	313,506	415,149	19,860,874	<u>47.84</u>
<b>Total Developed Property</b>	1,006	\$4,788,392	\$67,920,000	\$20,584,582	\$58,814	\$1,351,837	\$4,219,743	\$94,134,975	\$970,018,401	10.30

(1) Ownership and assessed values as of January 1, 2013 provided by the County Assessor. Assessed value calculated as land value plus improvement value.

<sup>(2)</sup> Based on final bond sizing. Allocated based on Fiscal Year 2013-14 levy.

<sup>(3)</sup> As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

<sup>(4)</sup> Per the Rate and Method, Developed Property is Custom Lot Property or property for which a building permit was issued as of January 1, 2013.

(5) Per the Rate and Method, Custom Lot Property is property (i) for which a Final Map was recorded prior to January 1, 2013; (ii) for which (a) escrow has closed prior to January 1, 2013 to an owner other than DMB Ladera, LLC, or (b) a building permit was issued prior to January 1, 2013; and (iii) that is a Proposed Custom Lot.

<sup>(6)</sup> Per the Rate and Method, Undeveloped Property is property that is not Custom Lot Property or for which a building permit was not issued as of January 1, 2013. Source: David Taussig & Associates, Inc.

## TABLE 9

# ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS FOR DEVELOPED PROPERTY BY RANGES

Estimated Assessed Value-to-Lien Ratio Range	Number of Parcels	Fiscal Year 2013-14 Special Tax	CFD No. 2004-1 Bonds Outstanding <sup>(1)</sup>	Capistrano Unified School District CFD No. 98-2 Bonds Outstanding <sup>(3)</sup>	Metropolitan Water District Bonds Outstanding <sup>(2)</sup>	Santa Margarita Water District ID No. 4B Bonds Outstanding <sup>(2)</sup>	Santa Margarita Water District ID No. 4 Bonds Outstanding <sup>(2)</sup>	Total Direct and Overlapping Debt	Assessed Value <sup>(3)</sup>	Estimated Assessed Value-to- Lien Ratio
0 - 2.99	19(4)	\$ 155,667	\$ 2,208,027	\$ 120,632	\$ 413	\$ 34,341	\$ 107,194	\$ 2,470,607	\$ 6,790,832	2.75
3.00 - 4.99	37 <sup>(5)</sup>	272,271	3,861,976	223,478	1,006	78,054	243,644	4,408,159	16,550,562	3.75
5.00 - 9.99	354	1,629,349	23,111,173	7,104,170	17,342	321,513	1,003,600	31,557,798	286,469,330	9.08
10.00 - 19.99	496	2,731,105	38,738,824	13,136,302	38,844	817,494	2,551,799	55,283,263	640,346,803	11.58
20.00 or more	0	0	0	0	0	0	0	0	0	NA
Total	906	\$ 4,788,392	\$ 67,920,000	\$ 20,584,582	\$ 57,606	\$ 1,251,402	\$ 3,906,237	\$ 93,719,827	\$ 950,157,527	10.14

<sup>(1)</sup> Based on final bond sizing. Allocated based on Fiscal Year 2013-14 levy.

<sup>(2)</sup> As of September 2, 2013. Allocated based on Fiscal Year 2013-14 levy.

<sup>(3)</sup> Assessed values as of January 1, 2013 provided by the County Assessor. Assessed value calculated as land value plus improvement value.

(4) 15 parcels are Custom Lot Property that had not been issued building permits and had no improvement value as of January 1, 2013. Of the 15, 10 were owned by individuals, and five were owned by Warmington Legacy as of January 1, 2013. Four parcels are Custom Lot Property that had building permits issued in July 2008 and October 2012, but had no improvement value as of January 1, 2013. Of the four, one was owned by an individual, and three were owned by Warmington Legacy as of January 1, 2013.

(5) 29 parcels are Custom Lot Property that had not been issued building permits or and had no improvement value as of January 1, 2013. Of the 29, 28 were owned by individuals, and one was owned by Warmington Legacy as of January 1, 2013. Four parcels are Custom Lot Property that had building permits issued in September 2008 and October 2012 but had no improvement value as of January 1, 2013. Of the four, one was owned by an individual and three were owned by Warmington Legacy as of January 1, 2013. Two parcels are Custom Lot Property owned by individuals that had building permits issued in November 2012, with partial improvement value as of January 1, 2013. Two parcels have reduced assessed value due to Proposition 60/90, which allows property owners aged 55 and older to transfer the base year value of a sold home to a replacement home of equal or lesser value within the same county (Proposition 60), or to another county in California (Proposition 90). These two parcels are owned by individuals and have base year values of 1985 and 1997.

Source: David Taussig & Associates, Inc.

# **SPECIAL RISK FACTORS**

The purchase of the Series A Bonds involves significant investment risks and, therefore, the Series A Bonds may not be 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 Series A 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 Series A 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 "SPECIAL RISK FACTORS — Property Values; Value-to-Lien Ratios" and "— Limited Secondary Market" below.

## **Risks of Real Estate Secured Investments Generally**

The Owners of the Series A Bonds 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 commercial 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; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; and (iv) increased delinquencies due to rising mortgage costs and other factors.

#### **Risks Related to Housing Market Conditions**

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. Beginning in 2007, home developers, appraisers and market absorption consultants were reporting weak housing market conditions due to factors including but not limited to the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures, (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new homes orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts, (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. Since Fiscal Year 2007-08, the assessed valuation for developed residential property in the District has declined by approximately 9.5%, although the assessed valuation has remained stable in the past year, increasing by approximately 1.3%. Although home prices within the District appear to have stabilized, one or more of these factors may negatively impact home values in the District in the future and affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency.

# **Limited Obligations**

The Series A Bonds and interest thereon are not payable from the general funds of the County. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the County is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Resolution, no Owner of the Series A Bonds may compel the exercise of any taxing power by the District or the County or force the forfeiture of any County or District property. The principal of, premium, if any, and interest on the Series A Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon

any of the County's or the District's property or upon any of the County's or the District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Resolution.

Failure by owners of the parcels within the District to pay Special Tax installments when due, delay in foreclosure proceedings, or the inability of the District to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Special Taxes levied against such parcels may result in the inability of the District to make full or timely payments of debt service on the Series A Bonds, which may, in turn, result in the depletion of the Reserve Account and the inability of the District to make full or timely payment on the Series A Bonds.

# **Insufficiency of Special Taxes**

Under the Rate and Method, 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 Developed Property, Religious Property, Taxable Public Property, Taxable Property Owner Association Property, or Undeveloped Property or as and on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Rate and Method of Apportionment of Special Taxes.*"

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 governing the levy of the Special Tax expressly exempts up to 396.79 acres of property. As of January 1, 2013, approximately 396.79 acres of property had been exempted. If for any reason more property within the District becomes exempt from taxation than is specified in the Rate and Method, by reason of ownership by a non-taxable entity such as the federal government, another public agency or other organization determined to be exempt, 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 when due.

Moreover, if a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within the District might not be sufficient to pay principal of and interest on the Series A Bonds when due and a default could occur with respect to the payment of such principal and interest.

## **Depletion of Reserve Account**

The Reserve Account is to be maintained in an amount equal to the Reserve Requirement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund." Funds in the Reserve Account may be used to pay principal of and interest on the Series A Bonds in the event the proceeds of the levy and the collection of the Special Taxes against the property in the District is not sufficient. If the Reserve Account is depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the Bonds and any Parity Bonds. However, no replenishment of the Reserve Account from the proceeds of the Special Taxes can occur as long as the proceeds that are collected from the levy of the Special Taxes at the maximum tax rates, together with available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Account are also pledged to secure the repayment of the Series B Bonds and any Parity Bonds.

#### **Natural Disasters**

The land within the District, like all California communities, may be subject to unpredictable seismic activity, fires, floods or other natural disasters. The occurrence of one of these natural disasters in the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and, in turn, the proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes, and could affect the ability or willingness of the property owners to pay their Special Taxes. No assurance can be given regarding the extent to which any future natural disasters may impact property in the District.

# **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.

Further, it is possible that liabilities may arise in the future with respect to any of the 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 that is realizable upon a delinquency.

Neither the District nor the County has knowledge of any hazardous substances being located on the property within the District; however, such entities have not conducted any investigation with respect to hazardous substances within the District.

## **Parity Taxes and Special Assessments**

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 DISTRICT — Estimated Direct and Overlapping Indebtedness."

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with the lien for all special taxes and special assessments levied by the County 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 government. See "SPECIAL RISK FACTORS — FDIC/Federal Government Interests in Properties" below.

Neither the County 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 County, 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 property within the District described herein.

### **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 County has caused a Notice of 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.

# **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 protect the Owners of the Series A 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 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 AND SOURCES OF PAYMENT FOR THE BONDS – Teeter Plan."

#### **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 Series A Bonds are derived, are customarily billed to the properties within the District on the ad valorem property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*," for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Resolution, in the event of delinquencies in the payment of Special Taxes. See "SPECIAL RISK FACTORS — FDIC/Federal Government Interests in Properties" and "— Bankruptcy and Foreclosure" below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the

payment of special taxes and assessments and limitations on the District's ability to foreclose on the lien of the Special Taxes in certain circumstances.

## 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 proceeds received from the sale of a taxable parcel following a Special Tax delinquency are not sufficient, taking into account other liens imposed by public agencies, to pay the full amount of the Special Tax delinquency, the District has no recourse against the owner of the parcel.

#### **Property Values; Value-to-Lien Ratios**

The value of the property within the District is a critical factor in determining the investment quality of the Series A Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel 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, delays in development or other events may adversely impact the security underlying the Special Taxes. See "THE 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, increased or decreased annually by an amount determined by the Orange County Assessor based on current market conditions, generally not to exceed an increase of more than 2% per fiscal year from the date of purchase (except in the case of new construction subsequent to such acquisition). No assurance can be given that a parcel could actually be sold for its assessed value. The actual market value of the property is subject to future events such as downturn in the economy, occurrences of certain acts of nature and the decisions of various governmental agencies as to land use, all of which could adversely impact the value of the land in the District which secure the Bonds. See "— Risks Related to Housing Market Conditions" above.

No assurance can be given that the estimated value-to-lien ratios as set forth in Tables 8 and 9 will be maintained over time. As discussed herein, many factors which are beyond the control of the District could adversely affect the property values within the District. The District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in the District or an increase in the indebtedness secured by taxes and amounts with parity liens on property in the District, or both, could result in a lowering of the value-to-lien ratio of the property in the District.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Tax — Proceeds of Foreclosure Sales."

#### **FDIC/Federal Government Interests in Properties**

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the FDIC, or other federal government entities such as Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other federal agency, has or obtains an interest.

In the case of FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the

District may be constrained. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels 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 would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution "this Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding." In the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see "SPECIAL RISK FACTORS — Insufficiency of Special Taxes."

# **Funds Invested in the County Investment Pool**

Funds held under the Resolution are required to be invested in Authorized Investments in accordance with the Resolution. See Appendix B attached hereto for the definitions of Authorized Investments. Included as an Authorized Investment under the Resolution is the Orange County Investment Pool (the "Pool") which is operated by the County Treasurer. Information regarding the Pool, including the Investment Policy for the Pool, the current investments held in the Pool and the recent performance measurements for the Pool may be

obtained at the County Treasurer's website at http://ttc.ocgov.com/investments/. The Pool includes several separate funds, including the County Money Market Fund and an Extended Fund. Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") has assigned its 'AAAm' principal stability fund rating to the County Money Market Fund, the part of the Pool into which the Special Tax proceeds collected by the District will be invested. The rating reflects only the view of Standard & Poor's, and explanation of the significance of the rating may be obtained from Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041; (212) 438-2124. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Standard & Poor's, if in the judgment of Standard & Poor's, circumstances so warrant. All investments, including the Authorized Investments, permitted to be held in the Pool, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal.

The County Treasurer's website referenced above is not in any way incorporated into this Official Statement and is cited for informational purposes only. The District makes no representation whatsoever as to the accuracy or completeness of any of the information on such website.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in the Pool following a bankruptcy proceeding filed on behalf of the Pool. In the event of a petition or bankruptcy filing on behalf of the Pool or the adjustment of County debts under Chapter 9 of the Federal Bankruptcy Code, a court might hold that the Owners of the Series A Bonds do not have a valid and/or prior lien on the Special Taxes where such amounts are deposited in the Pool and may not provide the Owners of the Series A Bonds could "trace" the funds that have been deposited in the Pool, such Owners would be unsecured (rather than secured) creditors. There can be no assurance that the Owners of the Series A Bonds could successfully so trace the Special Taxes. The District cannot predict the effects on the receipt of Special Taxes if the Pool were to suffer significant losses in its portfolio of investments or if the County or the Pool was to become insolvent or declare bankruptcy. See also "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure."

#### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of Beneficial Owners of the Series A Bonds. 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 "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *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 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 prosecuting 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 Series A 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.

Moreover, the ability of the District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940) and by the laws of the State relating to judicial foreclosure.

## **No Acceleration Provision**

The Series A Bonds do not contain a provision allowing for the acceleration of the Series A Bonds in the event of a payment default or other default under the Series A Bonds or the Resolution.

# Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS — Tax Exemption" herein, interest on the Series A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series A Bonds were issued, as a result of future acts or omissions of the District or the County in violation of covenants in the Resolution. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Series A Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Series A Bonds. Should such an event of taxability occur, the Series A Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Resolution.

Current or future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Series A Bonds. The introduction or enactment of any of the pending or future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is possible that subsequent to the issuance of the Series A Bonds there might be federal, State, or local statutory changes (or judicial or regulatory interpretations of federal, State, or local law) that affect the federal, State, or local tax treatment of the Series A Bonds or the market value of the Series A Bonds. No assurance can be given that subsequent to the issuance of the Series A Bonds such changes or interpretations will not occur. See "LEGAL MATTERS — Tax Exemption" below.

#### **Limitations on Remedies**

Remedies available to the Beneficial Owners of the Series A 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 Series A Bonds or to preserve the tax-exempt status of the Series A Bonds.

Bond Counsel will limit its opinion as to the enforceability of the Series A Bonds and of the Resolution to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of

certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Beneficial Owners of the Series A Bonds.

## Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Series A Bonds or, if a secondary market exists, that the Series A Bonds can be sold at all or for any particular price. Although the District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners of the Series A Bonds 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.

# **Proposition 218**

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

Among other things, Section 3 of Article XIII states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

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

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

It may be possible, however, for voters or the Board of Supervisors of the County, 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 Series A 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 Series A 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 will covenant in the Resolution that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District to an amount that is less than 110% of the sum of the estimated Administrative Expenses Cap plus gross debt service on the Outstanding Bonds in each future Bond Year. In connection with the foregoing covenant, the District has made a finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Series A Bonds. The District also will covenant in the Resolution that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

# **Ballot Initiatives**

Articles XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the County, or local districts to increase revenues or to increase appropriations.

# **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate (the "Disclosure Certificate"), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning the District (the "Annual Report"). The Annual Report to be filed by the District is to be filed not later than March 1 of each year, beginning March 1, 2014, and is to include audited financial statements of the District. The Annual Report due on March 1, 2014, will consist of the Official Statement and the audited financial statements for the District for Fiscal Year 2012-13. Thereafter, the Annual Report shall contain or include by reference the information set forth in the Disclosure Certificate. The full text of the Disclosure Certificate is set forth in APPENDIX C — "FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT."

Notwithstanding any provision of the Resolution, failure of the District to comply with the Disclosure Certificate shall not be an event of default under the Resolution. However, any Owner or Beneficial Owner of the Series A Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the Disclosure Certificate.

During the last five years, the District has complied with its prior continuing disclosure undertaking, however, the County and certain of its related entities, have failed to comply in certain respects with continuing disclosure undertakings related to outstanding bond indebtedness.

With respect to the County and its related entities, other than the District, the failure to comply fell into three general categories: (i) failure to provide significant event notices with respect to changes in the ratings of outstanding bonds, primarily related to changes in the ratings of various bond insurers insuring the

bonds of the County or its related entities; (ii) omission of required financial and operating data required to be included in certain annual reports and late filing of annual reports with respect to a number of the bond issues, in some cases by only a day and in other cases by a longer period of time; and (iii) failure to file audited financial statements as a part of annual reports. Copies of the County's audited financial statements were available to investors from other sources but were not filed concurrently with certain of the annual reports, as required by the continuing disclosure undertakings. In addition, with respect to the County of Orange Taxable Refunding Pension Obligation Bonds Series 1996A and the County of Orange Taxable Refunding Pension Obligation Bonds Series associated with bond insurer ratings downgrades. The failure to file was based on the mistaken view that the County's economic defeasance of these bonds through a refinancing terminated the continuing disclosure obligation, when, in fact, the termination did not occur because there was not a legal defeasance of the bonds.

The County and various related entities have made additional filings to provide certain of the previously omitted information; provided that with respect to ratings changes, notice has been provided only of the existing rating or ratings applicable to each outstanding series of bonds. Each of these filings may be accessed through EMMA. The District believes that the County and its related entities are now in compliance in all material respects with the prior undertakings for all series of bonds that remain outstanding.

In order to ensure ongoing compliance by the District with its continuing disclosure undertaking, (i) County staff will take steps to ensure that the filing due date is correctly documented in policies and procedures and a single County staff member has been assigned primary responsibility to monitor compliance; and (ii) the County has contracted with a consultant to assist in filing accurate, complete and timely disclosure reports on behalf of the District.

# LEGAL MATTERS

#### **Tax Exemption**

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 the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series A 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 Series A Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series A Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a Series A Bond (the first price at which a substantial amount of the Series A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Series A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Series A Bond. The amount of original issue discount that accrues to the Beneficial Owner of the Series A Bonds is excluded from the gross income of such Beneficial 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 Series A Bonds (including any original issue discount) 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 Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Series A Bonds to assure that interest on the Series A Bonds (including any 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 on the Series A Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series A Bonds. The District will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Series A 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 Beneficial Owner's basis in the applicable Series A 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 Beneficial Owner realizing a taxable gain when a Series A Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series A Bond to the Beneficial Owner. Purchasers of the Series A 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 Series A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series A Bonds might be affected as a result of such an audit of the Series A 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 Series A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Series A Bonds or their market value.

SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE SERIES A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL. STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE SERIES A BONDS OR THE MARKET VALUE OF THE SERIES A BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE SERIES A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE SERIES A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES A BONDS.

Bond Counsel's opinion 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. The Resolution and the Tax Certificate relating to the Series A 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 Series A Bond if 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 on the Series A Bonds (including any original issue discount) 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 on the Series A Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Series A Bonds.

Should interest on the Series A Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Series A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Resolution.

The proposed form of Bond Counsel's opinion with respect to the Series A Bonds is attached as APPENDIX D.

## Litigation

No litigation is pending or threatened concerning the validity of the Series A Bonds, the pledge of Special Taxes to repay the Series A Bonds, the powers or authority of the District with respect to the Series A 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 Series A Bonds.

# **Legal Opinion**

The validity of the Series A 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. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX D hereto and will accompany the Series A Bonds. Certain legal matters will be passed upon for the County and the District by the Office of the County Counsel, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Bond Counsel expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Series A Bonds and expressly disclaims any duty to advise the Beneficial Owners of the Series A Bonds as to matters related to this Official Statement.

## Rating

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") has assigned its municipal bond rating of "BBB" to the Series A Bonds.

Such rating reflects only the views of Standard & Poor's and an explanation of the significance of such rating may be obtained from Standard & Poor's. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by such organization, if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series A Bonds.

# **Verification of Mathematical Accuracy**

Causey Demgen & Moore, P.C., independent accountants, upon delivery of the Series A Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them which were prepared by the Underwriter, relating to the sufficiency of moneys and securities deposited

with U.S. Bank National Association to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the Prior Bonds.

The report of Causey Demgen & Moore, P.C. will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

#### Underwriting

The Series A Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Series A Bonds at a price of \$38,277,405.55 (being \$36,540,000 aggregate principal amount thereof, less Underwriter's discount of \$168,084.00 plus original issue premium of \$1,905,489.55). The purchase agreement relating to the Series A Bonds provides that the Underwriter will purchase all of the Series A 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 Series A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase the Series A Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Series A Bonds that CS&Co. sells.

The Underwriter and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to the Underwriter, including the Series A Bonds. Under the Agreement, the Underwriter will share with Pershing LLC a portion of the fee or commission paid to the Underwriter.

Piper Jaffray & Co. is acting as Placement Agent for the Series B Bonds and is receiving compensation in the amount of \$80,000.00 for serving as the Placement Agent with respect to the Series B Bonds. The Series B Bonds will be purchased in a private placement and are not being offered pursuant to this Official Statement.

#### **Financial Interests**

The fees being paid to the Underwriter, Underwriter's Counsel and Bond Counsel are contingent upon the issuance and delivery of the Series A Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series A Bonds and Underwriter's Counsel represents the County 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 Series A Bonds or the ability of the District to pay the principal of and interest on the Series A Bonds when due.

# **Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the Series A Bonds. Quotations and summaries and explanations of the Series A 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 an authorized representative of the District has been duly authorized by the Board of Supervisors of the County, acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH)

By: /s/ Michael B. Giancola

County Executive Officer

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# APPENDIX A

# RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) ("CFD No. 2004-1") and collected each Fiscal Year commencing in Fiscal Year 2004-05, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Religious Property," "Taxable Property Owner Association Property," "Taxable Public Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2004-1, 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. Lot Size equals 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. 2004-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County 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 County, CFD No. 2004-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2004-1 or any designee thereof of complying with disclosure requirements of the County, CFD No. 2004-1 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2004-1 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 County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2004-1 for any other administrative purposes of CFD No. 2004-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

"Apartment Property" means any Assessor's Parcel of Residential Property that consists of a building or buildings comprised of attached residential units available for rental, but not purchase, by the general public and under common management.

"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, as determined in accordance with Section C below.

**"Backup Special Tax"** means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C below.

**"Board"** means the Board of Supervisors of the County of Orange, acting as the legislative body of CFD No. 2004-1.

"**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. 2004-1 under the Act.

"CFD Administrator" means the County Executive Officer, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

"CFD No. 2004-1" means Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch).

"County" means the County of Orange.

"Custom Lot Property" means, for each Fiscal Year, any Assessor's Parcel of Taxable Property (i) that is within a Final Map that was recorded prior to January 1 of the prior Fiscal Year; (ii) for which (a) escrow has closed prior to January 1 of the prior Fiscal Year to an owner other than DMB Ladera, LLC or (b) a building permit for new construction was issued prior to January 1 of the prior Fiscal Year; and (iii) that is a Proposed Custom Lot.

"Developed Property" means, for each Fiscal Year, all (i) Custom Lot Property, and (ii) Taxable Property, exclusive of Religious Property, Taxable Property Owner Association Property, or Taxable Public Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year.

"Final Map" means (i) a final map or parcel map, or portion thereof, approved by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots for which building permits may be issued, or (ii) for condominiums, a final map approved by the County and a condominium plan recorded pursuant to California Civil Code Section 1352 creating such individual lots.

"Fiscal Year" means the period starting July 1 and ending on the following June 30.

"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.

"**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. 2004-1 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association.

"**Proportionately**" means for Developed 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 within CFD No. 2004-1. 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. 2004-1.

"**Proposed Custom Lot(s)**" means one or more of the following lots: (i) lots 9 through 31 and 47 through 80 of Tract 15985, (ii) lots 1 through 53 of Tract 15988, and (iii) lots 1 through 122 of Tract 16586.

"Public Property" means any property within the boundaries of CFD No. 2004-1 that is transferred to a public agency on or after the date of formation of CFD No. 2004-1 and is used for rights-of-way or any other purpose and is owned by or dedicated to the federal government, the State of California, 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 boundaries of CFD No. 2004-1 which (i) is either (a) used primarily as a place of worship or (b) vacant land or land under construction that is intended to be used primarily as a place of worship as determined by the CFD Administrator; and (ii) 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 (i) Custom Lot Property, and (ii) 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.

"Single Family Attached Property" means all Assessor's Parcels of Residential Property, for which building permits have been issued for attached residential units, excluding Apartment Property and Custom Lot Property.

"Single Family Detached Property" means all Assessor's Parcels of Residential Property for which building permits have been issued for detached residential units, excluding Custom Lot Property.

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

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 2004-1 to pay the sum of: (i) debt service on all Outstanding Bonds; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Bonds issued or to be issued by CFD No. 2004-1; and (v) any amounts required for construction of facilities eligible under the Act. In arriving at the Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

"State" means the State of California.

**"Taxable Property"** means all of the Assessor's Parcels within the boundaries of CFD No. 2004-1 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.

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

"Undeveloped Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Religious Property, Taxable Property Owner Association Property, or Taxable Public Property.

# B. <u>ASSIGNMENT TO LAND USE CATEGORIES</u>

Each Fiscal Year, all Taxable Property within CFD No. 2004-1 shall be classified as Developed Property, Religious Property, Taxable Public Property, Taxable Property Owner Association 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. Residential Property shall be assigned to Land Use Classes 1 through 12, and Non-Residential Property shall be assigned to Land Use Class 13.

The Assigned Special Tax for Residential Property shall be based on whether it is Custom Lot Property, Single Family Detached Property, Single Family Attached Property, or Apartment Property and on the lot size or Residential Floor Area of the dwelling unit(s) located on the Assessor's Parcel, as specified in Table 1 below. The Assigned Special Tax for Non-Residential Property shall be based on the Acreage of the Assessor's Parcel.

# C. <u>MAXIMUM SPECIAL TAX RATE</u>

# **1. Developed Property**

a. <u>Maximum Special Tax</u>

The Maximum Special Tax for each Assessor's Parcel classified as Developed 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 for Fiscal Year 2004-05 is shown below in Table 1.

# TABLE 1

# Assigned Special Taxes for Developed Property For Fiscal Year 2004-05 Community Facilities District No. 2004-1

Land Use Class	Residential Floor Area	Lot Size	Description	Assigned Special Tax
1	>4,850 SF	N/A	Single Family Detached Property	\$6,007 per unit
2	4,550 – 4,850 SF	N/A	Single Family Detached Property	\$5,627 per unit
3	4,250 – 4,549 SF	N/A	Single Family Detached Property	\$5,227 per unit
4	3,950 – 4,249 SF	N/A	Single Family Detached Property	\$5,040 per unit
5	3,650 – 3,949 SF	N/A	Single Family Detached Property	\$4,853 per unit
6	3,350 – 3,649 SF	N/A	Single Family Detached Property	\$4,749 per unit
7	< 3,350 SF	N/A	Single Family Detached Property	\$4,320 per unit
8	≥ 2,000 SF	N/A	Single Family Attached Property	\$3,459 per unit
9	< 2,000 SF	N/A	Single Family Attached Property	\$2,883 per unit
10	N/A	N/A	Apartment Property	\$815 per unit
11	N/A	> 14,000 SF	Custom Lot Property	\$9,083 per lot
12	N/A	≤ 14,000 SF	Custom Lot Property	\$6,480 per lot
13	N/A	N/A	Non-Residential Property	\$13,643 per Acre

# c. Increase in the Assigned Special Tax

The Assigned Special Taxes in Table 1 shall be applicable for Fiscal Year 2004-05, and shall increase thereafter, commencing on July 1, 2005 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Assigned Special Tax for the previous Fiscal Year.

d. <u>Multiple Land Use Classes</u>

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each land use as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

e. <u>Backup Special Tax</u>

The Backup Special Tax in CFD No. 2004-1 shall equal \$27,875 per Acre for Fiscal Year 2004-05, and shall increase thereafter, commencing on July 1, 2005 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Backup Special Tax for the previous Fiscal Year.

# 2. Religious Property, Taxable Property Owner Association Property, Taxable Public Property, and Undeveloped Property

a. <u>Maximum Special Tax</u>

The Maximum Special Tax for Religious Property, Taxable Property Owner Association Property, Taxable Public Property, and Undeveloped Property in CFD No. 2004-1 shall be \$36,605 per Acre for Fiscal Year 2004-05, and shall increase thereafter, commencing on July 1, 2005 and 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.

# D. <u>METHOD OF APPORTIONMENT OF THE SPECIAL TAX</u>

Commencing with Fiscal Year 2004-05 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 at up to 100% of the applicable Assigned Special Tax;

<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 at up to 100% of the Maximum Special Tax for Undeveloped Property;

<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 the Special Tax on each Assessor's Parcel of Developed 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>Fourth</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Religious Property, Taxable Property Owner Association Property or Taxable Public Property at up to the Maximum Special Tax for Religious Property, Taxable Property Owner Association Property or Taxable Public 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 CFD No. 2004-1.

# E. <u>EXEMPTIONS</u>

No Special Tax shall be levied on up to 396.79 Acres of Property Owner Association Property and/or Public Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property or Public Property or Public Property, its tax-exempt status will be revoked.

Property Owner Association Property or Public Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Property Owner Association Property or Taxable Public Property.

# F. <u>MANNER OF COLLECTION</u>

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. 2004-1 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.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by law and by CFD No. 2004-1. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

# G. <u>PREPAYMENT OF SPECIAL TAX</u>

The Special Tax obligation applicable to a Lot (as defined below) may be prepaid and the obligation of such Lot to pay any Special Tax may be fully or partially satisfied as described herein, provided that such prepayment will only be permitted prior to the earlier of (i) the date escrow closes to an individual homeowner for such Lot, or (ii) the

issuance of the first series of Bonds by CFD No. 2004-1. The CFD Administrator may charge a reasonable fee for calculation of the Prepayment Amount as defined below.

The following definitions apply to this Section G:

"CFD Public Facilities Costs" means \$59.8 million.

"Lot" means a lot for which a building permit may be issued, which is located within a Final Map.

# 1. Prepayment in Full

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

	Facilities Amount	
	plus	Administrative Fees and Expenses
Total:	equals	Prepayment Amount

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

# Paragraph No.:

- 1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
- 2. For a Lot which is a Proposed Custom Lot, or for which a building permit has been issued, compute the Assigned Special Tax for that Lot as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel or the applicable rate for Custom Lot Property, as applicable. For a Lot for which a building permit has not been issued, the CFD Administrator shall estimate the Assigned Special Tax for such Lot as though it was already designated as Developed Property, based on the Residential Floor Area anticipated for such Lot.
- 3. Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2004-1 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2004-1 as determined by the CFD Administrator, excluding any Assessor's Parcels which have been prepaid, and
- 4. Multiply the quotient computed pursuant to paragraph 3 by the CFD Public Facilities Costs to determine the amount of the CFD Public Facilities Costs to be prepaid (the "Facilities Amount").

- 5. Verify the administrative fees and expenses of CFD No. 2004-1 in connection with such prepayment, including the costs of computation of the prepayment and the costs of recording any notices to evidence the prepayment as determined by the CFD Administrator (the "Administrative Fees and Expenses").
- 6. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4 and 5 (the "Prepayment Amount").
- 7. From the Prepayment Amount, the amount computed pursuant to paragraph 4 shall be deposited into the Acquisition and Construction Fund established under the Indenture, or if such fund has not yet been established, into another construction fund established by CFD No. 2004-1 for such purpose. The amount computed pursuant to paragraph 5 shall be retained by CFD No. 2004-1.

With respect to any Lot that is prepaid, the CFD Administrator 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 Lot, and the obligation of such Lot to pay the Special Tax shall cease.

# 2. Prepayment in Part

The amount of the prepayment shall be calculated as in Section G.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = [(P_E - AE) \times F] + AE$$

These terms have the following meaning:

AE	=	the Administrative Fees and Expenses
PP	=	the partial prepayment

- $P_E$  = the Prepayment Amount calculated according to Section G.1
- F = the percentage by which the owner of the Lot is partially prepaying the Special Tax.

With respect to any Lot that is partially prepaid, the County shall (i) distribute the funds remitted to it according to Section G.1, and (ii) indicate in the records of CFD No. 2004-1 that there has been a partial prepayment of the Special Tax and the applicable percentage of the Assigned Special Tax, Backup Special Tax and Maximum Special Tax to which that Lot will remain subject. The remaining Special Tax (equal to 1.00 - F times the applicable Assigned Special Tax, Backup Special Tax, Backup Special Tax and/or Maximum Special Tax) will continue to be levied on such Lot pursuant to Section D.

# H. <u>TERM OF SPECIAL TAX</u>

The Special Tax shall be levied on an Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

# **APPENDIX B**

# SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions of the Resolution and the Supplement to Resolution (collectively, the "Resolution") which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Resolution for a full and complete statement of their provisions.

## DEFINITIONS

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

"Acquisition and Construction Fund" means the fund by that name continued pursuant to the Resolution.

"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 with respect to the calculation and collection of the Special Taxes, or costs otherwise incurred by the County staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation, the fees and expenses of the Paying Agent and any fees for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance.

"Administrative Expenses Cap" means \$75,000 for Fiscal Year 2013-14, increasing on July 1 of each year thereafter by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.

"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.

"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. Cash.

2. United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

3. Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.
4. Eligible commercial paper shall be of "prime" quality and of the highest ranking or of the highest letter and number rating as provided by a Rating Agency, except that split ratings (i.e., A2/Pl) shall not be allowed. The commercial paper shall not exceed 270 days' maturity and the entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

(a) Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated "A" or higher by a Rating Agency.

(b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond, has commercial paper that is rated "A-1" or higher, or the equivalent, by a Rating Agency.

5. Negotiable certificates of deposit issued by a U.S. national or state-chartered bank, savings bank, savings and loan association, or credit union in this state or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state- licensed branch of a foreign bank. Issuing banks must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from a Rating Agency, if any.

6. Investments in repurchase agreements which comply with the requirements of California Government Code Section 53601(j) pursuant to which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601(j)(2) and as described below:

(a) In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

(b) Collateral will be limited to U.S. Treasury securities listed in paragraph (2) above and U.S. Government Agency securities listed in paragraph (3) above. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. The Treasurer retains the right to substitute or grant substitutions of collateral.

7. Bankers acceptances, also known as time drafts (bills of exchange) that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by each Rating Agency and have a short-term rating of at least Al/Pl and a long-term rating of not less than "A" from a Rating Agency, if any.

8. Shares of beneficial interest issued by diversified management companies that are mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.), which only invest in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agency securities and repurchase agreements with a weighted average maturity of 60 days or less. At a minimum, approved mutual funds shall have met either of the following criteria:

(a) Attained the highest ranking or the highest letter and numerical rating provided by each Rating Agency.

(b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500,000,000.

9. Municipal debt instruments issued by a local or state agency, including:

(a) Bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

(b) Registered state warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

(c) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, including bonds payable solely out of the revenues from a revenue- producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Issuing municipalities must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from a Rating Agency, if any. Municipal debt issued by the County is exempt from this credit rating requirement.

10. Medium-term notes consisting of corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools such as money market funds and five years for any longer-term pools such as an extended fund. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated not less than "A" or its equivalent from each Rating Agency.

11. The Orange County Investment Pool.

The value of the investments in (1) through (11) above, which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount in any fund, all Authorized Investments credited to such fund shall be valued at fair market value. The Paying 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, and Merrill Lynch;

(b) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(c) as to any investment not specified above: the value thereof established by prior agreement between the District and the Paying Agent.

The value of an investment in the Orange County Investment Pool shall be computed in the manner required by State law.

"Authorized Representative of the County" means the County Executive Officer, the Public Finance Manager of the County, or their written designees, or any other person or persons designated by the Board of Supervisors of the County and authorized to act on behalf of the County by a written certificate signed on behalf of the County by the Chairman of the Board of Supervisors 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 Paying Agent shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

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

"Bond Year" means the twelve month period commencing on August 16 of each year and ending on August 15 of the following year, except that the first Bond Year shall begin on the Delivery Date and end on the next August 15.

"Bonds" means collectively, the Series A Bonds, the Series B Bonds, and any Parity Bonds authorized by and at any time Outstanding pursuant to the Resolution.

"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 Paying Agent is located, are not required or authorized to remain closed.

"Certificate of the County Executive Officer" means a written certificate or warrant request executed by the County Executive Officer, or his or her written designee. "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 Certificate" means that certain Continuing Disclosure Certificate executed and delivered by the District with respect to the Series A Bonds.

"Costs of Issuance" means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Paying Agent, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Series A Bonds and Parity Bonds, fees of financial consultants and other fees and expenses set forth in a Certificate of the County Executive Officer including, but not limited to, underwriting costs, rating agency fees, fees and expenses for financial consultants, bond counsel, and counsel to the Original Purchaser.

"County" means the County of Orange, California.

"Defeasance Securities" means Authorized Investments of the type described in paragraphs (1) and (2) of the definition thereof; provided, however, that the Authorized Investments under paragraph (2) shall be noncallable prior to maturity.

"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.

"Depository" means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Bonds, to the extent eligible for book-entry registration as provided in the Resolution (which does not include the Series B Bonds), or any other securities depository acting as Depository under the Resolution.

"District" means Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) established pursuant to the Act and the Resolution of Formation.

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

"Gross Special Taxes" means the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Resolution, so long as the County has paid to the District the Special Taxes levied for a taxdefaulted parcel pursuant to the Teeter Plan established by the County pursuant to California Revenue and Taxation Code Sections 4701 et seq.

"Independent Accountant" means any accountant or firm of such accountants appointed and paid by the District, and who, or each of whom -

(a) is in fact independent and not under domination of the District or the County;

(b) does not have any substantial interest, direct or indirect, in the District or the County; and

(c) is not an officer or employee of the District, or the County, but who may be regularly retained to make annual or other audits of the books of or reports to the District or the County.

"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:

County;

(1) is in fact independent and not under the domination of the District or the

(2) does not have any substantial interest, direct or indirect, in the District or the County; and

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

"Interest Payment Date" means each February 15 and August 15, commencing August 15, 2014; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next preceding such date.

"Letter of Representations" means a letter substantially in the form attached to the Resolution and delivered by each purchaser of the Series B Bonds to the District to the effect, among other things, that such purchaser (a) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the Series B Bonds, (b) is acquiring the Series B Bonds for its own account for the purpose of investment and not with a view to the distribution thereof, and (c) has no present intention of selling, negotiating, transferring, or otherwise disposing of the Series B Bonds so purchased.

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

"Net Special Taxes" means Gross Special Taxes minus amounts set aside prior to the payment of the principal of and interest on the Bonds and Parity Bonds, in order to pay Administrative Expenses, but in no case to exceed the Administrative Expenses Cap, in each Fiscal Year. "Nominee" shall mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Resolution.

"Office of the Paying Agent" means the office of the Paying Agent at which at any particular time its corporate trust business with respect to the Resolution shall be administered, which office at the date of the Resolution is located at 633 West 5th Street, Los Angeles, California 90071, or such other place as designated by the Paying Agent except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Paying Agent at which, at any particular time, its corporate trust agency business shall be conducted.

"Ordinance" means Ordinance No. 04-012 adopted by the legislative body of the District on August 3, 2004, providing for the levying of the Special Tax.

"Original Purchaser" means, with respect to the Series A Bonds, Piper Jaffray & Co., and, with respect to the Series B Bonds, Compass Mortgage Corporation, and with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

"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 Resolution;

(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 Resolution or any applicable Supplemental Resolution for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Paying Agent for transfer or exchange pursuant to the Resolution or for which a replacement has been issued pursuant to the Resolution.

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

"Participant" means each of the broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds (to the extent eligible for bookentry registration as provided in the Resolution) as securities depository.

"Paying Agent" means U.S. Bank National Association or any financial institution appointed by the District pursuant to the Resolution, or if no such financial institution is appointed, the Treasurer.

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

"Prior Bonds" means the District's \$75,645,000 Series A of 2005 Special Tax Bonds.

"Prior Supplement" means Supplement to Resolution No. 04-328.

"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 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, Paying 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.

"Rate and Method of Apportionment" means the Rate and Method of Apportionment for Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) attached to the Resolution of Formation.

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

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

"Record Date" means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

"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" shall mean the Blanket Letter of Representations from the District and the Paying Agent to the Depository as described in the Resolution.

"Reserve Requirement" means the amount as of any date of calculation that is equal to the sum of the least of (i) 10% of the initial principal amount of the Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding Bonds, if any, or (iii) 125% of Average Annual Debt Service on the then Outstanding Bonds.

"Resolution" means the Supplement to Resolution, together with Resolution No. 14-013 of the District, approving the Supplement to Resolution No. 14-013, and any Supplemental Resolution approved pursuant to the Resolution.

"Resolution of Formation" means Resolution No. 04-179 adopted by the Board of Supervisors of the County on June 29, 2004, pursuant to which the County formed the District.

"Series A Bonds" means the Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014A Special Tax Refunding Bonds.

"Series B Bonds" means the Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014B Special Tax Refunding Bonds.

"Sinking Fund Payment" means the annual payment to be deposited in the Principal Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Resolution and any annual sinking fund payment to retire any Parity Bonds. References in the Resolution to "principal" due on the Bonds includes Sinking Fund Payments due.

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

"Special Tax Fund" means the fund by that name established pursuant to the Resolution.

"Special Taxes" means the taxes authorized to be levied by the District in accordance with the Ordinance, the Resolution of Formation, the Rate and Method of Apportionment, and the Act.

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

"Supplemental Resolution" means any resolution authorizing the issuance of any Parity Bonds.

"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 Series B Bonds maturing on August 15, 2027, bearing interest at the rate of 3.310% per annum, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Resolution.

"Treasurer" means the Treasurer Tax Collector of the County acting on behalf of the District, or the Treasurer's written designee.

# GENERAL AUTHORIZATION AND BOND TERMS

Type and Nature of Bonds and Parity Bonds. Neither the faith and credit nor the taxing power of the County, 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 County 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 Resolution. The District's limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity 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 or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the County 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 County, 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 Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Resolution and the Act, required to be 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 Supervisors of the County 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.

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

Pursuant to the Act and the Resolution, the Bonds and any Parity Bonds are equally payable from the Net Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are pledged for such purpose, 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 Special Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds and any Parity Bonds. 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 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 Resolution or any Supplemental Resolution. Notwithstanding any provision contained in the Resolution to the contrary, Net Special Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Acquisition and Construction Fund, or 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 APPLICATION OF PROCEEDS**

There is created and established and shall be maintained by the Treasurer the following funds and accounts:

(1) The Community Facilities District No. 2004-1 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. 2004-1 Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account); and

(3) The Community Facilities District No. 2004-1 Surplus Fund (the "Surplus Fund").

There is continued and shall be maintained by the Treasurer the Community Facilities District No. 2004-1 Acquisition and Construction Fund (the "Acquisition and Construction Fund") originally established pursuant to the Prior Supplement.

The amounts on deposit in the foregoing funds and accounts shall be held by the Treasurer and the Treasurer shall invest and disburse the amounts in such funds and accounts in accordance with the provisions of the Resolution and shall disburse investment earnings thereon in accordance with the provisions of the Resolution. The Treasurer may appoint a paying agent, trustee or other agent to act as a custodian of the funds to the extent permitted by applicable law.

In connection with the issuance of any Parity Bonds, the Treasurer 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 Special Tax Fund**. The Treasurer shall, on each date on which the Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund and shall also deposit therein all amounts paid to the Treasurer by the Authority in accordance with the terms of the Authority Indenture to be held in trust. The Treasurer shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Resolutions, in the following order of priority, to:

(1) The Administrative Expense Account of the Special Tax Fund in an amount not to exceed the Administrative Expenses Cap;

- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Reserve Account of the Special Tax Fund;
- (5) The Redemption Account of the Special Tax Fund;

(6) The Administrative Expense Account of the Special Tax Fund to fund Administrative Expenses which exceed the Administrative Expenses Cap;

- (7) The Rebate Fund; and
- (8) The Surplus Fund.

Administrative Expense Account of the Special Tax Fund. The Treasurer shall from the first available Special Taxes in the Special Tax Fund transfer to and deposit in the Administrative Expense Account the amount specified in a Certificate of the County Executive Officer up to an amount equal to the Administrative Expenses Cap for such Bond Year; provided, however, if the Treasurer has not received a Certificate of the County Executive Officer prior to the date on which the next transfer is to be made pursuant to the Resolution, then the transfer shall be in an amount equal to the Administrative Expenses Cap for such Bond Year. In the event Administrative Expenses exceed the Administrative Expenses Cap in any Bond Year, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses 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 and to restore the Reserve Account to the Reserve Requirement. Once the requirements of the preceding sentence have been satisfied, upon receipt of a Certificate of the County Executive Officer, the Treasurer shall transfer from the Special Tax Fund for deposit to the Administrative Expense Account the amount specified in such Certificate. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by the Treasurer.

**Interest Account and Principal Account of the Special Tax Fund**. 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 Treasurer 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 required by the Resolution, at least five Business Days prior to each February 15 and August 15, the Treasurer 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 Resolution:

(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 August 15 of each year, commencing August 15, 2014, shall equal the principal payment due on the Bonds and any Parity Bonds on such August 15 and any principal payment due on a previous August 15 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.

In the event that the amounts in the Interest Account are inadequate to pay the amounts due, then the amounts in the Interest Account shall be applied to pay a pro rata portion of the interest due on all Bonds and Parity Bonds. In the event that on any date amounts in the Principal Account are inadequate to pay the principal on the Bonds and any Parity Bonds when due, then the amounts in the Principal Account shall be applied to pay a pro rata portion of the principal due on the Bonds and the Parity Bonds on such date.

## Reserve Account of the Special Tax Fund.

After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund, the Treasurer shall next transfer to the Reserve Account the amount, if any, necessary to cause the amount in the Reserve Account, taking into account the amounts then on deposit in the Reserve Account, to be equal to the 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 any Bonds or 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 and for the purpose of making any required transfer to the Rebate Fund pursuant to the Resolution upon written direction from the District. If the amounts in the Interest Account, the Principal Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Treasurer shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account of the Special Tax Fund are serve for a supplicable, moneys necessary for such purposes.

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expense Account, the Interest Account, the Principal Account, and the Redemption Account of the Special Tax Fund, the Treasurer 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 Treasurer determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund. If the amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to restore the Reserve to the Reserve Requirement, then the District shall include the amount necessary 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 Bonds or of Parity Bonds in accordance with any Supplemental Resolution, or a partial defeasance of Bonds or Parity Bonds in accordance with the Resolution, amounts in the Reserve 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 or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and 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 February 15 and August 15 and transferred to the Interest Account of the Special Tax Fund.

## **Redemption Account of the Special Tax Fund.**

After making the deposits to the Administrative Expense Account, the Interest Account, the Principal Account and the Reserve Account of the Special Tax Fund as required by the Resolution, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Resolution, or to call Parity Bonds for optional redemption as set forth in any Supplemental Resolution for Parity Bonds, the Treasurer 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 equals 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; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Resolution. 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 Resolution. 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.

Surplus Fund. After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account, the Reserve Account, to the Redemption Account, and the Rebate Fund, as soon as practicable after each August 15, and in any event prior to each September 1, the Treasurer shall transfer all remaining amounts in the Special Tax Fund to the Surplus 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 such Fiscal Year pursuant to the Resolution. Moneys deposited in the Surplus Fund may be transferred by the Treasurer (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, 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 to replenish the Reserve Account to the Reserve Requirement, (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, (iv) to the Acquisition and Construction Fund to pay Project Costs, or (v) for any other lawful purpose of the District

The amounts in the Surplus 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. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the Treasurer will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus 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 or Parity 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 or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes. Acquisition and Construction Fund. The District may deposit additional amounts to the Acquisition and Construction Fund from time to time. 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 shall be disbursed by the Treasurer from the account in the Acquisition and Construction Fund designated in the Addendum to Warrant Request, substantially in the form attached to the Resolution, which must be submitted in connection with each requested disbursement.

Upon receipt of a Certificate of the County Executive Officer 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 Treasurer 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 (i) the Special Tax Fund, or (ii) to the Surplus Fund if requested in the Certificate and if there shall have been delivered to the Treasurer with such Certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, the Prior Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

**Investments**. Moneys held in any of the Funds, Accounts and Subaccounts under the Resolution shall be invested at the direction of the Treasurer 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 Surplus Fund and the Rebate Fund and each Account therein shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Resolution may be invested by the Treasurer, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or are available for withdrawal 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 Resolution to the contrary, amounts in the Acquisition and Construction Fund on the Delivery Date for the Bonds shall be invested in Authorized Investments of the type set forth in clause (9) of the definition thereof which comply with the provisions of the Tax Certificate.

(b) Moneys in the Interest Account, the Principal Account, the Reserve Account, and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature or 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.

(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 Treasurer or the Paying Agent, as applicable, 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 Treasurer or the Paying Agent, as applicable; provided that such amounts may be invested in Authorized Investments to the later of 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 Resolution; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amount relates.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (2) 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 Resolution or in Authorized Investments of the type described in clauses (1), (7) and (11) of the definition thereof.

(e) Except for amounts in the Acquisition and Construction Fund which must be invested as described in paragraph (a) above, in the absence of written investment directions from the Treasurer, the Paying Agent shall invest solely in Authorized Investments specified in clause (7) of the definition thereof.

The Treasurer and the Paying Agent, at the direction of the Treasurer, shall sell at the best price obtainable, 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. Notwithstanding anything in the Resolution to the contrary, the Treasurer and the Paying Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Resolution.

# **REDEMPTION OF BONDS AND PARITY BONDS**

**Optional Redemption – Series A Bonds.** See the caption "THE SERIES A BONDS – Redemption" in the Official Statement.

**Optional Redemption** – **Series B Bonds.** The Series B Bonds may be redeemed, at the option of the District from any source of funds, in whole but not in part, on any date on or after February 15, 2024, at a redemption price equal to the principal amount of the Series B Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

**Mandatory Sinking Fund Redemption**. The Series B Bonds shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account of the Special Tax Fund, on August 15, 2014, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The Bonds so called for redemption shall be selected by the Paying Agent by lot and shall 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:

SERIES B BONDS	MATURING	AUGUST	15, 2027
			- )

Redemption Date (August 15)	Principal Amount
2014	\$ 780,000
2015	1,525,000
2016	1,660,000
2017	1,810,000
2018	1,960,000
2019	2,115,000
2020	2,280,000
2021	2,450,000
2022	2,635,000
2023	2,815,000
2024	3,015,000
2025	3,220,000
2026	3,435,000
2027*	1,680,000

\* Final Maturity

If during the Fiscal Year immediately preceding one of the redemption dates specified in the foregoing mandatory sinking fund dates above the District purchases Series B Bonds, at least 45 days prior to the redemption date the District shall notify the Paying Agent as to the principal amount purchased and the amount of Series B 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 Series B Bonds. All Series B Bonds purchased pursuant to this subsection shall be cancelled pursuant to the Resolution.

In the event of a partial optional redemption of Series B Bonds, each of the remaining Sinking Fund Payments for such Series B Bonds as described above will be reduced, as nearly as practicable, on a pro rata basis in integral multiples of \$5,000.

## **COVENANTS AND WARRANTY**

**Warranty**. The District shall preserve and protect the security pledged under the Resolution to the Bonds and any Parity Bonds against all claims and demands of all persons.

**Covenants**. So long as any of the Bonds or Parity Bonds issued under the Resolution are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Resolution (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:

(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 Treasurer, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by

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

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

(b) <u>Levy of Special Tax</u>. So long as any Bonds or Parity Bonds issued under the Resolution are Outstanding, the legislative body of the District covenants to cause the levy of the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the "Special Tax Requirement").

(c) <u>Commence Foreclosure Proceedings</u>. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$25,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied, and diligently pursue such foreclosure proceedings until such delinquent amounts are collected; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement. 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 at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit any Gross Special Taxes received in connection with a foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement, and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

(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 Special 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 or any Parity Bonds then Outstanding; provided that nothing contained in the Resolution 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 portion of the Project financed by the District, and 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 Paying Agent or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) <u>Federal Tax Covenants</u>. Notwithstanding any other provision of the Resolution, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis will not be adversely affected, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income for federal income tax purposes 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 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;

(2) <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;

(3) <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 cause the Authority 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;

(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 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 Authority Bonds and any applicable Parity Bonds; 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 any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Resolution.

Reduction of Maximum Special Taxes. The District finds and determines that, (g) 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 that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Resolution would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants or Independent Accountants 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 then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 110% of the sum of the estimated Administrative Expenses Cap plus gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the amount in the Reserve Account is not less than the Reserve Requirement, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Accountant or Independent Financial Consultant shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

(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 without satisfying the requirements of the Resolution or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Resolution, 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 covenants that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds to the Treasurer in full payment or partial payment of any Special Taxes.

(j) <u>Further Assurances</u>. 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 Resolution and for the better assuring and

confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Resolution.

# AMENDMENTS TO RESOLUTION

**Supplemental Resolutions 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, adopt resolutions or orders supplemental to the Resolution for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Resolution which may be inconsistent with any other provision in the Resolution, or to make any other provision with respect to matters or questions arising under the Resolution 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 Resolution, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution 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 Resolution;

(d) to modify, amend or supplement the Resolution in such manner as to permit the qualification thereof 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 or any Parity Bonds then Outstanding; or

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

Supplemental Resolutions or Orders Requiring Bondowner Consent. Exclusive of the resolutions or orders supplemental set forth in the Resolution, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such resolutions or orders supplemental to the Resolution 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 Resolution; provided, however, that nothing in the Resolution 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 resolution or order, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding; provided further that any resolutions or orders amending, adding to, or rescinding any of the terms under the Resolution relating to (i) the covenant to commence foreclosure proceedings, (ii) the covenant regarding the reduction of maximum Special Tax rates for the District,

and (iii) the conditions for the issuance of Parity Bonds and other additional indebtedness, shall require the consent of the Owners of not less than two-thirds in aggregate principal amount of the Bonds and Parity Bonds Outstanding.

### THE PAYING AGENT

**Paying Agent**. U.S. Bank National Association shall be the Paying Agent for the Bonds and any Parity Bonds unless and until another Paying Agent is appointed by the District under the Resolution. The District may, at any time, appoint a successor Paying Agent satisfying the requirements of the Resolution for the purpose of receiving all money which the District is required to deposit with the Paying Agent under the Resolution and to allocate, use and apply the same as provided in the Resolution. In the event that the District fails to deposit with a Paying Agent appointed by the District any amount due under the Resolution when due, such Paying Agent shall provide immediate telephonic notice to the Treasurer's office and shall confirm the amount of such shortfall in writing.

The Paying Agent is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Resolution, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Paying 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 Resolution, 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 Resolution. The Paying Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Paying Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Paying Agent shall cancel all Bonds and Parity Bonds upon surrender or payment thereof in accordance with the provisions of the Resolution.

**Removal of Paying Agent**. The District may at any time at its sole discretion remove the Paying Agent initially appointed, and any successor thereto, by delivering to the Paying Agent a written notice of its decision to remove the Paying Agent and may appoint a successor or successors thereto; provided that any such successor, other than the Treasurer, shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Paying 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 the Resolution 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.

**Resignation of Paying Agent**. The Paying Agent may at any time resign by giving written notice to the District 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 Paying Agent. Upon receiving such notice of resignation, the District shall promptly appoint a

successor Paying Agent satisfying the criteria in the Resolution by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying Agent shall become effective only upon acceptance of appointment by the successor Paying Agent.

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

The Paying Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond 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 Paying 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 Resolution in good faith and in accordance therewith.

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

Whenever in the administration of its duties under the Resolution the Paying Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may, in the absence of bad faith on the part of the Paying 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 Paying Agent for any action taken or suffered under the provisions of the Resolution upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

## **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 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 Resolution,

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 Paying Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

**Remedies of Owners**. Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Resolution;

(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.

No remedy conferred upon or reserved to the Owners in the Resolution 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 thereunder 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 Paying Agent after an event of default pursuant to the Resolution 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 first, to the payment of all installments of interest on the Outstanding Bonds and Parity Bonds then due and unpaid, and second, to the payment of principal of all installments of the Outstanding Bonds and Parity Bonds then due and unpaid, then due and unpaid.

# DEFEASANCE AND PARITY BONDS

**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 Resolution or any Supplemental Resolution, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Special 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 Resolution and any Supplemental Resolution 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 Resolution, the Treasurer shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Treasurer shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Resolution 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 paragraph above 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 Treasurer, 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 an escrow bank appointed by the District with notice to the Treasurer, in trust, noncallable Defeasance 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 Resolution and any Supplemental Resolution with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Paying 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 covenants of the District contained in the Resolution or any covenants in a Supplemental Resolution relating to compliance with the Code. Notice of such election shall be filed with the Paying Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Paying Agent. In connection with a defeasance under (c) above and under (b) above, if required by the Act, 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 Paying 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 Resolution, 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) addressed to the District to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Resolution and any applicable Supplemental Resolution.

Upon a defeasance, the Paying Agent and/or the Treasurer, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Resolution and any Supplemental Resolution 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 Resolution of all Outstanding Bonds and Parity Bonds, the Paying Agent shall pay over or deliver to the District any funds held by the Paying 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 Paying Agent shall, 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.

**Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness**. The District may at any time after the issuance and delivery of the Bonds under the Resolution issue Parity Bonds payable from the Net Special 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 under the Resolution or under any Supplemental Resolution; provided, however, that Parity Bonds may only be used for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then outstanding. 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 Resolution and any Supplemental Resolution then in effect and a certificate of the District to that effect shall have been filed with the Treasurer; 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 Resolution duly adopted by the District which shall specify the following:

(1) The refunding 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 incidental to or connected with such refunding;

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

(3) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an August 15, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

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

(5) The denominations and method of numbering of such Parity Bonds;

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

(7) 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;

(8) The form of such Parity Bonds; and

(9) Such other provisions as are necessary or appropriate and not inconsistent with the Resolution.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Paying Agent (unless the Paying Agent shall accept any of such documents bearing a prior date):

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

Bonds;

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

(3) An opinion of Bond Counsel and/or County Counsel to the effect that (a) the District has the right and power under the Act to adopt the Resolution and the Supplemental Resolutions relating to such Parity Bonds, and the Resolution and all such Supplemental Resolutions 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 Resolution creates the valid pledge which it purports to create of the Net Special Taxes and other amounts as provided in the Resolution, subject to the application thereof to the purposes and on the conditions permitted by the Resolution; 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 Resolution and all Supplemental Resolutions thereto and entitled to the benefits of the Resolution and all such Supplemental Resolutions, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Resolution and all such Supplemental Resolutions; 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, the Bonds and Parity Bonds theretofore issued;

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

(5) A certificate from one or more or Independent Accountants or Independent Financial Consultants which, when taken together, certify that the amount of the maximum Special Taxes that may be levied by the District on Developed Property (which for purposes of this calculation shall mean property upon which a completed structure is located) pursuant to the Act and the applicable resolutions and ordinances of the District in each remaining Bond Year based on then existing development in the District is at least equal to Annual Debt Service for each corresponding Bond Year on all Outstanding Bonds and Parity Bonds theretofore issued and the Parity Bonds proposed to be issued, and that Annual Debt Service in each Bond Year shall be less than or equal to such amounts prior to the issuance of the Parity Bonds. For purposes of making the certifications required by this paragraph (c), the Independent Accountants or the Independent Financial Consultants may rely on reports or certificates of such other persons as may be acceptable to the District, the County, Bond Counsel and the Original Purchasers of the proposed Parity Bonds; and

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

#### **APPENDIX C**

### CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT

This Continuing Disclosure Certificate dated as of February 1, 2014 (the "Disclosure Certificate") is executed and delivered by Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) (the "Issuer") in connection with the issuance and delivery by the Issuer of its \$36,540,000 Special Tax Refunding Bonds Series 2014A (the "Bonds"). The Bonds are being issued pursuant to Resolution No.14-013 adopted on January 14, 2014, by the Board of Supervisors of the County of Orange, acting as the legislative body of Issuer, and the Supplement to Resolution No. 14-013 (collectively, the "Resolution"). The Issuer covenants as follows:

Section 1. <u>Purpose of the Disclosure Agreement</u>. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

Section 2. <u>Definitions</u>. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate 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, Section 3 and 4 of this Disclosure Certificate.

"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.

"County" means the County of Orange, California.

"Disclosure Representative" shall mean the Public Finance Manager of the Issuer, 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, the Issuer, 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.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Issuer" shall mean Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch).

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Owners" shall mean the registered owners of the Bonds as set forth in the registration books maintained by the Paying Agent.

"Paying Agent" means U.S. Bank National Association or such entity appointed by the District pursuant to the Resolution.

"Repository" shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at *http://emma.msrb.org*.

"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" shall mean the State of California.

"Tax-Exempt" shall mean the 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 preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

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

Section 3. <u>Provision of Annual Reports</u>.

(a) The Issuer shall, or, if the Dissemination Agent is other than the Issuer, upon written direction shall cause the Dissemination Agent to, not later than March 1 after the end of the Issuer's Fiscal Year (June 30) commencing with the report due by March 1, 2014, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 Certificate; provided that the audited financial statements of the Issuer, if any exist, 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 they are not available by that date. If the Issuer's fiscal year changes, the Issuer shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). 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.

(c) If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA, in the form required by EMMA.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the repository if other than the MSRB through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to EMMA and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

Section 4. <u>Content of Annual Reports</u>. The Issuer's Annual Report due on March 1, 2014, will consist of the Official Statement and the Issuer's audited financial statements for Fiscal Year 2012-13. Thereafter, the Issuer's Annual Report shall contain or include by reference the following:

(a) <u>Financial Statements</u>. The audited financial statements of the Issuer for the prior fiscal year, if any have been prepared and which, if prepared, shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entitles from time to time 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, as applicable, shall provide the information referenced in Section 8 below. If the Issuer are preparing audited financial statements and such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), 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.

(b) <u>Financial and Operating</u> Data. The Annual Report shall contain or incorporate by reference the following:

(i) the principal amount of the Bonds outstanding as of the August 16 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Resolution and the Reserve Requirement as of the August 16 preceding the filing of the Annual Report;

(iii) any changes to the Rates 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;

(iv) an update of the estimated assessed value-to-lien ratio for the District substantially in the form of Table 8 in the Official Statement based upon the most recent

Special Tax levy preceding the date of the Annual Report and on the assessed values of property for the current fiscal year;

(v) the percentage of the maximum Special Taxes levied by the District with respect to the Bonds;

(vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;

(vii) a table showing the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that, as of December 31, remain unpaid for each prior fiscal year in which Special Taxes were levied and the number of delinquent parcels in the District;

(viii) a statement as to whether the Teeter Plan remains in effect with regard to the District; 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.

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 EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The Issuer shall clearly identify each such other document so included by reference.

## Section 5. <u>Reporting of Significant Events</u>.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

- 1. principal and interest payment delinquencies;
- 2. unscheduled draws on debt service reserves reflecting financial difficulties;
- 3. unscheduled draws on credit enhancements reflecting financial difficulties;
- 4. substitution of credit or liquidity providers, or their failure to perform;
- 5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
- 6. tender offers;
- 7. defeasances;

- 8. ratings changes; and
- 9. bankruptcy, insolvency, receivership or similar proceedings.

<u>Note</u>: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) 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. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- 2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- 3. appointment of a successor or additional trustee or the change of the name of a trustee;
- 4. nonpayment related defaults;
- 5. modifications to the rights of Owners of the Bonds;
- 6. notices of redemption; and
- 7. release, substitution or sale of property securing repayment of the Bonds.

(c) Upon the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent, if other than the Issuer, 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 Issuer's obligations under this Disclosure Certificate 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 Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent, if other than the Issuer, shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Paying Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent, with or agent shall be the Issuer of the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Paying Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Paying Agent.

Section 8. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver related to the provisions of Sections 3(a), 4, or 5, 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 the type of business conducted;

(b) The undertaking hereunder, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment related to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the formed accounting principles.

Section 9. <u>Additional Information</u>. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. If the Issuer chooses to include any information in any Annual Report or notice of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. <u>Default</u>. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, the Paying Agent at the written direction of any Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, 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 Issuer to comply with its obligations under this Disclosure Certificate, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Paying Agent whatsoever, including, without limitation, fees and expenses of its attorney. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate shall be an action to compel performance.

Section 11. <u>Duties, Immunities and Liabilities of Dissemination Agent</u>. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its 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 negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. <u>Notices</u>. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

Issuer:	Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) County Executive Office 333 W. Santa Ana Boulevard, 3 <sup>rd</sup> Floor Santa Ana, CA 92701 Attention: Public Finance Manager
Underwriter:	Piper Jaffray & Co. Attention: Public Finance Department 2321 Rosecrans Ave., Suite 3200 El Segundo, CA 90245

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notice or communications should be sent.

Section 13. <u>Beneficiaries</u>. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Paying Agent, the Dissemination Agent, the Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

This Disclosure Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE COUNTY OF ORANGE (LADERA RANCH)

By:

Its: Disclosure Representative

#### **APPENDIX D**

#### FORM OF OPINION OF BOND COUNSEL

\_\_\_\_\_, 2014

Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Santa Ana, California

### *Re:* \$36,540,000 Community Facilities District No. 2004-1 (Ladera Ranch) Series 2014A 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 County of Orange taken in connection with the authorization and issuance by the Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) (the "District") of its Series 2014A Special Tax Refunding Bonds in the aggregate principal amount of \$36,540,000 (the "Bonds") and such other information and documents as we 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 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), Resolution No. 14-013, adopted by the Board of Supervisors of the County of Orange, acting in its capacity as the legislative body of the District (the "Board") on January 14, 2014, and the Supplement to Resolution No. 14-013 executed pursuant to the terms thereof (the foregoing resolution and supplement being collectively referred to herein as the "Resolution"). All capitalized terms not defined herein shall have the meaning set forth in the Resolution.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Resolution. The Bonds bear interest payable semiannually on each February 15 and August 15, commencing on August 15, 2014, at the rates per annum set forth in the Resolution. The Bonds are registered bonds in the form set forth in the Resolution, redeemable in the amounts, at the times and in the manner provided for in the Resolution.

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:

(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 Resolution, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or 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 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 County of Orange, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Resolution has been duly authorized by the District, and the Resolution 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, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or 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 Resolution to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Resolution creates a valid pledge of that which the Resolution purports to pledge, subject to the provisions of the Resolution, except to the extent that enforceability of the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or 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 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. Original issue discount that accrues for the Bondowner 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 Bondowner'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 Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bondowner'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 Bondowner 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 paragraph (4) 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 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 Resolution may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Resolution, 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 Resolution.

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).

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 information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series A Bonds, payment of principal, premium, if any, accreted value and interest on the Series A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests 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. Reference made to <u>www.dttc.com</u> is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized 2. 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying 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.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC

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