

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 9, 2014

NEW ISSUE
BOOK-ENTRY ONLY

RATINGS: S&P - ____
(See "RATINGS" herein)

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject to certain qualifications described herein, under existing statutes, regulations, rules and court decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$34,485,000*
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)
OF THE CITY OF ALISO VIEJO
County of Orange
State of California
2014 SPECIAL TAX REFUNDING BONDS

Dated: Date of Issuance

Due: September 1, as shown on inside front cover

The Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo, County of Orange, State of California (the "District") 2014 Special Tax Refunding Bonds (the "Bonds") are being issued by the City of Aliso Viejo (the "City") for the District pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53311 et seq. of the California Government Code), and a Fiscal Agent Agreement (the "Agreement"), dated as of January 1, 2014, between the City, for itself and on behalf of the District, and The Bank of New York Trust Company, N.A., as Fiscal Agent. The Bonds are special obligations of the City and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on certain taxable land within the District (less certain administrative expenses) and from certain other funds pledged under the Agreement, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the City Council of the City and the qualified electors within the District. See "SECURITY FOR THE BONDS – Special Taxes." The City Council of the City is the legislative body of the District.

The proceeds of the Bonds will primarily be used to (i) refund the outstanding Community Facilities District No. 2005-01 2007 Special Tax Bonds (the "2007 Bonds") on a current basis; (ii) fund a reserve fund; and (iii) pay costs of issuing the Bonds. See "REFUNDING PLAN" herein.

Interest due with respect to the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2014. Initial purchases of beneficial interests in the Bonds will be made in book-entry form and the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Bond denominations are \$5,000 and any integral multiple in excess thereof. Purchasers of beneficial interests in the Bonds will not receive certificates representing their interests in the Bonds and will not be paid directly by the Fiscal Agent. See "APPENDIX G – DTC and Book Entry System."

The Bonds are subject to optional and mandatory redemption prior to their stated maturity, as described herein. See "THE BONDS – Redemption" herein.

To provide funds for payment of the Bonds in the event of a shortfall of revenues caused by delinquent Special Tax payments, the City will establish a Reserve Fund for the Bonds initially funded from Bond proceeds. If revenues from the Special Taxes are insufficient to pay the debt service on the Bonds, the moneys in the Reserve Fund are available to cover the deficiency. There is no assurance that funds will be available for this purpose and if, during the period of revenue shortfall, there are insufficient moneys in the Reserve Fund, there may be a delay in payment to the owners of the Bonds.

Neither the faith and credit nor the taxing power of the City, the County of Orange, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special tax obligations of the City payable solely from Special Tax Revenues and other amounts held under the Agreement as more fully described herein.

The scheduled payment of principal of and interest on all or a portion of the Bonds when due may be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds.

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE CITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. THE PURCHASE OF THE BONDS INVOLVES SIGNIFICANT RISKS, AND THE BONDS ARE NOT SUITABLE INVESTMENTS FOR ALL 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 BONDS.

This cover page contains certain information for quick reference only. It is not a complete summary of the terms of this Bond issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds.

MATURITY SCHEDULE
(see Inside Cover Page)

The Bonds are being offered when, as and if issued by the City on behalf of the District, subject to the approval as to their legality by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Best Best & Krieger LLP, as City Attorney and Disclosure Counsel to the City, for the Underwriter by Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, as Underwriter's Counsel. Delivery of the Bonds is expected to occur in New York, New York on or about February 13, 2014.

STIFEL

Dated: January ____, 2014

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE

(Base CUSIP[†]: _____)

\$ _____ Serial Bonds

<u>Maturity Date</u> (September 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†]	<u>Maturity Date</u> (September 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†]
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\$ _____ % Term Bonds Due September 1, 2038 Yield _____ % CUSIP[†]: _____

[†] Copyright 2013, CUSIP Global Services, and a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the Underwriter nor the District assumes any responsibility for the accuracy of the CUSIP data.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and any continuing disclosure documents of the District are intended to be made available by the City on behalf of the District at the address indicated below. The District has undertaken to provide certain continuing disclosure pursuant to a Continuing Disclosure Agreement, as described herein. Copies of the resolutions and other documents relating to the issuance of the Bonds are available upon request, and upon payment to the City of a charge for copying, mailing and handling, from the office of the City Manager, City of Aliso Viejo, 12 Journey, Suite 100, Aliso Viejo, California 92656-5335.

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

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States 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," "budget" or other similar words and include, but are not limited to, statements under the captions "THE DISTRICT."

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 part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

By placing an order for the Bonds with an Underwriter, you agree that if you are allocated Bonds, the Underwriter may disclose your identity to the City as an initial purchaser of the Bonds, unless you advise your sales representative otherwise.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City on behalf of the District has agreed to provide certain on-going financial and operating data, except as specifically described under the caption "LEGAL MATTERS – Continuing Disclosure," the City on behalf of the District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based change.

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

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CITY OF ALISO VIEJO

City Council

Phillip Tsunoda, Mayor
Bill Phillips, Mayor Pro-Tem
Carmen Cave, Council Member
Ross Chun, Council Member
Mike Munzing, Council Member

City Staff

John Whitman, Interim City Manager
Gina Tharani, Director of Financial Services/City Treasurer
Susan Ramos, City Clerk
Best Best & Krieger LLP, City Attorney

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Best Best & Krieger LLP
San Diego, California

Special Tax Consultant and Dissemination Agent

Koppel & Gruber Public Finance
San Marcos, California

Financial Advisor

Fieldman Rolapp & Associates
Irvine, California

Fiscal Agent/Escrow Agent

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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City of Aliso Viejo

(Orange County, California)

Regional Location Map





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OFFICIAL STATEMENT

\$34,485,000*

**COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)
OF THE CITY OF ALISO VIEJO
County of Orange
State of California
2014 SPECIAL TAX REFUNDING BONDS**

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in this entire Official Statement, including the cover page and appendices hereto, and the documents summarized or otherwise described herein. A full review should be made of this entire Official Statement and such documents prior to making an investment in the Bonds. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the appendices hereto, sets forth certain information concerning the issuance by the City of Aliso Viejo (the "City"), of the \$34,485,000* aggregate principal amount of Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo, County of Orange, State of California 2014 Special Tax Refunding Bonds (the "Bonds") for and on behalf of the Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo (the "District"). The Bonds are being issued by the City, for itself and on behalf of the District, under the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (constituting Section 53311 et seq. of the California Government Code) (the "Act"), and a Fiscal Agent Agreement, dated as of January 1, 2014 (the "Agreement"), between the City and The Bank of New York Trust Company, N.A., as Fiscal Agent (the "Fiscal Agent"). Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given such terms in the Agreement, some of which are set forth in Appendix A hereto.

Issuing Authority

The District was established by the City Council of the City (the "City Council") pursuant to proceedings under the Act on April 20, 2005. See "THE DISTRICT – Authorization" herein. The Bonds were authorized to be issued by a resolution adopted by the City Council on January 8, 2014 (the "Resolution of Issuance"). The Bonds are being issued pursuant to the Act, the Resolution of Issuance, and the Agreement. See "THE BONDS – Authority for Issuance."

Application of Proceeds

The net proceeds of the Bonds will be used to: (i) refinance the outstanding Community Facilities District No. 2005-01 2007 Special Tax Bonds (the "2007 Bonds") on a current basis and cause the early redemption thereof on March 1, 2014; (ii) fund a reserve fund for the Bonds; and (iii) pay costs of issuing the Bonds. See "REFUNDING PLAN – Sources and Uses of Bond Proceeds" herein.

The District

District Development. The City, which has a population of approximately 49,000 and is approximately 7 square miles, is located in South Orange County. The City is located in Southern California, 45 miles from

* Preliminary, subject to change.

downtown Los Angeles, 70 miles north of San Diego, and 4 miles northeast of the Pacific Ocean. Neighboring communities include Laguna Hills, Laguna Niguel, Laguna Beach, and Newport Beach.

The District is located in the City at the southeast corner of Glenwood Drive and Aliso Creek Road. The District consists of approximately 104 gross acres. The District includes 502 single family residential units, including 455 taxable units of residential property and 43 affordable units in Zone 1 and 4 taxable units of residential property in Zone 2. The affordable units are not subject to the special tax. The entire residential development was complete as of March 1, 2013. The balance of the acreage in the District represents parcels that are exempt from the levy of the Special Tax and includes open space, public rights-of-way, a City Conference Center, an Aquatic Center, a public park, and a portion of the Aliso Viejo Golf Course, a privately owned golf course. The original developer of property within the District is Shea Limited Partnership (the "Developer"), an affiliate of Shea Family of Companies. The Bonds are secured and payable solely from Special Tax Revenues of the District, including foreclosure proceeds obtained from foreclosure and sale of Taxable Property in the District.

Formation Proceedings. The District has been formed by the City 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 of California (the "State"). Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness. The City Council acts as the legislative body of the District.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of special taxes on taxable property within the boundaries of the District, and to incur bonded indebtedness within the District. The Bonds are secured and payable solely from Special Tax Revenues (as defined herein) of the District, including foreclosure proceeds obtained from foreclosure and sale of property located in the District. Following public hearings conducted pursuant to the provisions of the Act, the City Council 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 April 20, 2005, at an election held pursuant to the Act, the then current landowners who comprised the qualified voters of the District authorized the District to incur bonded indebtedness in the aggregate principal amount not to exceed \$37,500,000 for the District to be secured by the levy of Special Taxes on taxable property within the District. On that same date, the landowners within the District approved the rate and method of apportionment of the Special Taxes on land within the District to pay the principal of and interest on the bonds of the District (the "Original Rate and Method"). On November 1, 2006, at a subsequent election held pursuant to the Act, the landowners who comprised the qualified electors of the District approved the levy of a special tax within the District pursuant to a Modified Rate and Method of Apportionment of Special Tax (the "Modified Rate and Method," and the Original Rate and Method as modified by the Modified Rate and Method, the "Rate and Method"). The Rate and Method is set forth in Appendix D hereto. The facilities authorized to be financed by the District are referenced herein as the "Facilities."

Property Value.

The value of the land within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of the Special Tax, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Tax. See "THE DISTRICT – Property Assessed Values" for a discussion of the development status of property in the District and the assessed value (and value-to-lien ratios) of property within the District. No appraisal of the property within the District has been undertaken by the City in connection with the issuance of the Bonds.

The estimated value of the property subject to the Special Tax for Fiscal Year 2013/14, based on assessed values of homes individually owned as of January 1, 2013 and reported sales prices for lots owned by the Developer as of January 1, 2013, but which have subsequently sold, is \$352,633,574, providing an overall value to lien ratio excluding overlapping land-secured and general obligation bond debt of 10.23 to 1*. See “THE DISTRICT - Property Assessed Values” below. Total direct and overlapping tax and assessment debt on property in the District as of December 30, 2013 is \$36,937,116*, including the Bonds hereby offered. See “THE DISTRICT – Estimated Direct and Overlapping Debt” for a discussion of additional debt secured by liens on the real property in the District on a parity with the Bonds. Within the District there are other liens and overlapping indebtedness. When combined with debt service on the Bonds the total value-to-lien ratio within the District is 9.55 to 1*. See “THE DISTRICT – Estimated Direct and Overlapping Debt and Value-to-Lien Ratios.”

Security for the Bonds

Under the Agreement, the Bonds are payable from a portion of the Special Tax levied on taxable property within the District. See “SECURITY FOR THE BONDS – Special Taxes” herein. “Special Tax” is defined in the Agreement and is used in this Official Statement, to mean the special taxes levied by the City Council on parcels of taxable property within the District pursuant to the Act, the Rate and Method and the Agreement. Under the Agreement, the City has pledged to repay the Bonds from Special Tax Revenues and certain funds pledged thereto pursuant to the Agreement. “Special Tax Revenues” is defined in the Agreement to mean the proceeds of the Special Taxes received by the City, including any scheduled payments, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon. The Special Taxes levied pursuant to the Rate and Method increase by two percent (2%) annually. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” AND “APPENDIX A – SUMMARY OF THE AGREEMENT” herein.

Under the Agreement, the City has agreed to levy the Special Tax, and to repay the Bonds from the Special Tax Revenues (except for the amount of \$35,149.78 which shall be deposited in the Administrative Expense Fund for Fiscal Year 2013/14, and which amount shall be escalated by 2% each fiscal year thereafter during the term of the Bonds, the “Priority Administrative Expense Allocation”) and from certain amounts on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Agreement. See “APPENDIX A – SUMMARY OF THE AGREEMENT.” A portion of the proceeds of the Bonds will be deposited in the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement. The moneys in the Reserve Fund will be used for, among other purposes permitted by the Agreement, payment of the principal of and interest on the Bonds in the event that moneys in the Bond Fund are insufficient therefor. See “SECURITY FOR THE BONDS – Reserve Fund.”

Foreclosure Proceeds. The City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that it will (i) order, and cause to be commenced, judicial foreclosure proceedings against properties with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the fiscal year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all properties with delinquent Special Taxes by the October 1 following the close of each fiscal year in which it receives Special Taxes in an amount which is less than ninety-five percent (95%) of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings; provided, however, the City shall not be required to order, and cause judicial foreclosure proceedings to be commenced against delinquent properties as long as no deficiency in the Reserve Fund exists (or is projected to exist in order to meet the next upcoming debt service payment) and the City determines that the cost of pursuing such foreclosure is greater than the outstanding delinquency. See “SECURITY FOR THE BONDS” herein. There is no assurance that the taxable property within the District can be sold for the 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” herein.

* Preliminary, subject to change.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM SPECIAL TAX REVENUES AND CERTAIN AMOUNTS HELD UNDER THE AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

Limited Liability

Although the unpaid Special Taxes constitute a lien on the taxable real property within the District, they do not constitute a personal indebtedness of any landowner within the District, the Developer, or any future property owner in the District. There is no assurance that the current owner of property within the District, or any future property owners within the District will be financially able to pay the Special Taxes or that it will pay the Special Taxes even though financially able to do so.

THE BONDS ARE PAYABLE SOLELY FROM THE PROCEEDS OF THE SPECIAL TAX TO BE LEVIED ANNUALLY ON THE LAND WITHIN THE DISTRICT (EXCEPT FOR THE PRIORITY ADMINISTRATIVE EXPENSE ALLOCATION) AND AMOUNTS IN CERTAIN FUNDS ESTABLISHED UNDER THE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN OF THE DISTRICT, TO THE LIMITED EXTENT SET FORTH IN THE AGREEMENT) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE PROPERTY OR REVENUES OF THE CITY, AND THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS IS NOT A GENERAL DEBT, LIABILITY OR OBLIGATION OF THE CITY OR THE DISTRICT.

Description of the Bonds

The Bonds are dated their date of delivery and mature in the amounts and in the years, and bear interest at the rates set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on each March 1 and September 1 each year, beginning September 1, 2014.

The Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in denominations of \$5,000 or any integral multiple in excess thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry-only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Agreement. See “THE BONDS – Description of the Bonds” and “APPENDIX F – DTC AND THE BOOK ENTRY SYSTEM” herein.

Principal of, premium, if any, and interest on the Bonds are payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry-only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described herein. See “THE BONDS – Description of the Bonds” and “APPENDIX F – DTC AND THE BOOK ENTRY SYSTEM” herein. *So long as the Bonds are in book-entry-only form, all references in the Official Statement to the owners or holders of the Bonds shall mean DTC or its nominee and not the Beneficial Owners of the Bonds.*

The Bonds are subject to optional redemption and mandatory redemption as described herein. For more complete descriptions of the Bonds and the Agreement pursuant to which they are being issued and delivered. See “THE BONDS” and “APPENDIX A – SUMMARY OF THE AGREEMENT,” herein.

Tax Matters

In the opinion of Bond Counsel, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal or state income tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

Continuing Disclosure

The City on behalf of the District has, with Koppel & Gruber Public Finance, as Dissemination Agent, entered into a Continuing Disclosure Agreement whereby the City on behalf of the District has covenanted for the benefit of the Owners of the Bonds to provide to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“EMMA”), which can be found at www.emma.msrb.org, certain financial information and operating data relating to the District by not later than nine months after the end of each fiscal year (the “Annual Reports”), and to provide notices of the occurrence of certain listed events. The Annual Reports will be filed by the Dissemination Agent on behalf of the District, with EMMA. The notices of listed events will be filed by the Dissemination Agent, on behalf of the District with EMMA. The specific nature of the information to be contained in the Annual Reports or the notices of listed events is set forth in “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.” See also “LEGAL MATTERS - Continuing Disclosure.” In 2008, the City filed its annual report for the City's 2006 Certificates of Participation (City Hall Acquisition) two days after the filing deadline. Other than this instance, the City has not failed to comply with any undertaking by the City under the Rule and is currently in compliance with all of its undertakings under the Rule.

Bond Owners’ Risks

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See “SPECIAL RISK FACTORS” herein for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency. The purchase of the Bonds involves significant risks, and the Bonds may not be appropriate investments for some investors.

Professionals Involved in the Offering

The Bank of New York Trust Company, N.A., Los Angeles, California, will act as Fiscal Agent under the Agreement. Stifel, Nicolaus & Company, Incorporated, San Francisco, California, is the Underwriter of the Bonds. The proceedings of the City Council in connection with the issuance, sale and delivery of the Bonds are subject to the approval of Best Best & Krieger LLP, San Diego, California, Bond Counsel. Koppel & Gruber Public Finance, San Marcos, California is acting as Special Tax Consultant to the City and will act as dissemination agent under the Continuing Disclosure Agreement of the City. Certain legal matters will be passed on for the City and the District by Best Best & Krieger LLP as City Attorney and Disclosure Counsel. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is acting as Underwriter’s Counsel. Other professional services related to the Bonds have been performed by: Fieldman Rolapp & Associates, Irvine, California, as the City's Financial Advisor.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United

States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “THE DISTRICT.”

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

Additional Information

Brief descriptions of the Bonds, the Agreement, the Continuing Disclosure Agreement, the security for the Bonds, the District, the actual and proposed development of the property in the District and certain other documents and information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. Any references to documents herein are qualified by reference to the complete text thereof. Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given them in the Agreement, some of which are set forth in “APPENDIX A – SUMMARY OF THE AGREEMENT.” Copies of documents referenced herein may be obtained upon written request and payment of the cost of mailing and duplication from the office of the City Clerk of the City, 12 Journey, Suite 100, Aliso Viejo, California 92656-5335.

REFUNDING PLAN

A portion of the proceeds of the Bonds will be used, together with certain existing funds, to provide for the defeasance and refunding of the Bonds. Money will be deposited into a refunding fund (the “Refunding Fund”) which will be held under an Escrow Agreement dated as of January 1, 2014, between the City and The Bank of New York Mellon Trust Company, N.A., as Escrow Bank (the “Escrow Agreement”).

Moneys in the Refunding Fund are expected to be held uninvested. The amount deposited in the Refunding Fund will be sufficient to pay when due the principal of and interest and premium, if any, on the 2007 Bonds to and including March 1, 2014 and to redeem the 2007 Bonds on March 1, 2014.

As a result of the deposit and application of funds as provided in the Escrow Agreement, the obligation to make payments of the principal of, premium, if any, and interest on, as the case may be, the 2007 Bonds will be defeased on such date of deposit. Neither the moneys in the Escrow Fund nor the interest thereon will be available for the payment of the Bonds.

Approximately \$30,000 remains in an improvement fund established for the 2007 Bonds which will be transferred to the Improvement Fund established under the Agreement to finance remaining obligations for the construction of the City’s aquatic center facilities.

Sources and Uses of Bond Proceeds

Under the provisions of the Agreement, the Fiscal Agent will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources of Funds

Principal Amount of Bonds
Less Underwriter’s Discount
Less Original Issue Discount
Plus Funds on Hand from 2007 Bonds
Total

Uses of Funds

Costs of Issuance Fund⁽¹⁾
Reserve Fund⁽²⁾
Improvement Fund
Refunding Fund
Total

⁽¹⁾ To be used to pay costs of issuance of the Bonds, including Bond Counsel fees, Disclosure Counsel fees, initial Fiscal Agent fees, Financial Advisor’s fees, Special Tax Consultant fees, Rating Agency fee, Official Statement printing and other costs of issuance.

⁽²⁾ An amount equal to the initial Reserve Requirement. See “SECURITY FOR THE BONDS – Reserve Fund.”

Annual Debt Service of Bonds

The table below sets forth the scheduled annual debt service payments on the Bonds, assuming no optional or extraordinary redemption of the Bonds but including mandatory sinking fund redemptions.

<u>Year Ending</u> <u>(September 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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* Indicates a scheduled mandatory sinking account payment.

THE BONDS

Authority for Issuance

The District was established and bonded indebtedness within the District in an amount not to exceed \$37,500,000 was authorized pursuant to the provisions of the Act. The Bonds will be issued pursuant to the Act, a Resolution of Issuance, and the Agreement. The Bonds are secured under the Agreement and are payable from Special Tax Revenues (except for the Priority Administrative Expense Allocation) and from funds and accounts held under the Agreement excluding the Improvement Fund and all subaccounts therein, the Administrative Expense Fund and the Rebate Fund. See “APPENDIX A – SUMMARY OF AGREEMENT” herein.

Description of the Bonds

The Bonds are being issued in the aggregate principal amount of \$34,485,000*, are dated their date of delivery and will mature in the amounts and in the years, and bear interest at the rates set forth on the cover page of this Official Statement.

The Bonds will be issued without coupons as one fully registered bond for each maturity, in the name of Cede & Co., as nominee for DTC, as registered owner of all the Bonds. The Bonds will be available to ultimate purchasers in denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the purchasers or Beneficial Owners of the Bonds. See “APPENDIX F – DTC AND THE BOOK ENTRY SYSTEM.”

So long as the Bonds are held in book-entry only form, principal of, premium, if any, and interest on the Bonds will be paid directly to DTC for distribution to the Beneficial Owners of the Bonds in accordance with the procedures adopted by DTC. See “APPENDIX F – DTC AND THE BOOK ENTRY SYSTEM.” The Bonds will mature on September 1, in the principal amounts and years, and bearing rates of interest, as shown on the inside cover of this Official Statement.

Interest on the Bonds will be payable semiannually on September 1 and March 1 of each year, commencing September 1, 2014 (each, an “Interest Payment Date”) and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication; or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Closing Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon or from the Closing Date, if no interest has previously been paid or made available for payment thereon.

Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Fiscal Agent, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of Participants and Indirect Participants, as more fully described herein. See “APPENDIX F – DTC AND THE BOOK ENTRY SYSTEM.”

* Preliminary, subject to change.

Redemption

*Optional Redemption.** The Bonds maturing on or after September 1, 2024 are subject to redemption prior to their stated maturity dates on any Interest Payment Date beginning September 1, 2023, as selected by the City among maturities (and by lot within any one maturity), in integral multiples of \$5,000, at the option of the City from moneys derived by the City from any source, at par, together with accrued interest thereon:

*Mandatory Redemption from Special Tax Prepayments.** The Bonds are subject to mandatory redemption prior to their stated maturity dates on any Interest Payment Date, as selected by the City among maturities (and by lot within any one maturity), in integral multiples of \$5,000, from moneys derived by the City from Special Tax Prepayments, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2014 through March 1, 2021	103%
September 1, 2021 and March 1, 2022	102%
September 1, 2022 and March 1, 2023	101%
September 1, 2023 and any Interest Payment Date Thereafter	100%

Mandatory Sinking Fund Redemption. The outstanding Bonds maturing on September 1, ____ and September 1, 2038 are subject to mandatory sinking fund redemption, in part, on September 1, ____ and September 1, ____, respectively, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

BONDS MATURING _____, _____

Redemption Date <u>(September 1)</u>	<u>Sinking Payment</u>
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(maturity)

BONDS MATURING SEPTEMBER 1, 2038

Redemption Date <u>(September 1)</u>	<u>Sinking Payment</u>
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(final maturity)

The amounts in the foregoing schedules shall be reduced by the City pro rata among redemption dates, in order to maintain substantially level debt service, as a result of any prior partial optional redemption of the Bonds or mandatory redemption of the Bonds from the prepayment of Special Taxes.

Purchase of Bonds. In lieu of payment at maturity or redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of outstanding Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase, at a public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event will

* Preliminary, subject to change.

Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase. In such event, the City shall, as may be appropriate, provide to the Fiscal Agent a revised maturity schedule or a revised mandatory sinking fund schedule for the Bonds, or both.

Selection of Bonds for Redemption

If less than all the Bonds outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or a multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing the number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

Whenever provision is made in the Agreement for the redemption of less than all of the Bonds of a maturity or any given portion thereof, the Fiscal Agent shall select the Bonds of such maturity to be redeemed, from all Bonds of such maturity or such given portion thereof not previously called for redemption, by lot within a maturity in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

Upon surrender of Bonds redeemed in part only, the City will execute and the Fiscal Agent will authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Notice of Redemption

Redemption Procedure by Fiscal Agent. The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Securities Depositories and to one or more Information Services selected by an Authorized Officer, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Fiscal Agent at its Principal Office; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds. The Fiscal Agent shall also cause notice of any redemption to be mailed, in such manner and within such time, to the Underwriter.

Such notice shall state the date of such notice, the date of issue of the Bonds, the place or places of redemption, the redemption date, the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed, by giving the individual CUSIP number and Bond number of each Bond to be redeemed, or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, shall state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed, shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date.

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

The City shall have the right to rescind any notice of redemption prior to maturity on or prior to the date fixed for such redemption prior to maturity. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date so fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default hereunder. The City and the Fiscal Agent shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Fiscal Agent shall mail notice of such recession of redemption in the same manner as the original notice of redemption.

If less than all the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or a multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing the number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

Whenever provision is made for the redemption of less than all of the Bonds of a maturity or any given portion thereof, the Fiscal Agent shall select the Bonds of such maturity to be redeemed, from all Bonds of such maturity or such given portion thereof not previously called for redemption, by lot within a maturity in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the redemption prices of the Bonds called for redemption have been deposited in the Bond Fund, such Bonds will cease to be entitled to any benefit under the Agreement other than the right to receive payment of the redemption price, and interest will cease to accrue on the Bonds to be redeemed on the redemption date specified in the notice of redemption. All Bonds redeemed and purchased by the Fiscal Agent pursuant to the Agreement will be cancelled by the Fiscal Agent.

Transfer or Exchange of Bonds

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of Bonds shall be made in accordance with DTC procedures. See "APPENDIX F – DTC AND THE BOOK ENTRY SYSTEM." If the book-entry only system for the Bonds is ever discontinued, any Bond may, in accordance with its terms, be transferred or exchanged by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Fiscal Agent shall collect from the Bondowner requesting such transfer any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfers or exchanges of Bonds shall be required to be made (i) within 15 days prior to the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to a Bond after such Bond has been selected for redemption.

SECURITY FOR THE BONDS

Limited Obligations

The Bonds are special, limited obligations of the City secured by a pledge upon all of the Special Tax Revenues (except for the Priority Administrative Expense Allocation) and all moneys on deposit in the Special Tax Fund, the Bond Fund, and the Reserve Fund (including the investment earnings thereon), and from no other sources.

“Special Tax Revenues” are defined in the Agreement to mean the proceeds of the Special Taxes received by the City, including any scheduled payments, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

In the event that the Special Tax Revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent, including amounts held in the Reserve Fund, for the exclusive benefit of the Bondowners.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF ORANGE, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM SPECIAL TAX REVENUES AND OTHER AMOUNTS PLEDGED UNDER THE AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the City Council established the District on April 20, 2005, to finance the construction and acquisition of certain public capital improvements. On that same date, 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 the aggregate principal amount not to exceed \$37,500,000 for the District to be secured by the levy of Special Taxes on taxable property within the District pursuant to the rate and method of apportionment of the Special Taxes (the “Original Rate and Method”). A Notice of Special Tax Lien was recorded in the Office of the Recorder of the County of Orange on April 29, 2005 as Document No. 2005-000329076. On November 1, 2006, at a subsequent election held pursuant to the Act, the landowners who comprised the qualified electors of the District approved the levy of the Special Tax within the District pursuant to a modified rate and method of apportionment thereof (the “Modified Rate and Method,” and the Original Rate and Method as modified by the Modified Rate and Method, the “Rate and Method”). An Amendment to Notice of Special Tax Lien was recorded in the Office of the Recorder of the County of Orange on November 13, 2006 as Document No. 2006-000763701. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX ” attached hereto for the complete text of the Rate and Method.

The Bonds are secured by a pledge of and lien upon (which shall be effected in the manner and to the extent provided in the Agreement) all of the Special Tax Revenues (except the Priority Administrative Expense Allocation which will be deposited in the Administrative Expense Fund for each fiscal year pursuant to the Agreement) and all moneys on deposit in the Special Tax Fund, the Bond Fund, and the Reserve Fund. The Bonds that may be issued shall be equally secured by a pledge of and lien upon such Special Tax Revenues and such moneys without priority for number, date of Bond, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds and any premium upon the redemption of any thereof shall be and is secured by a pledge of and lien upon such Special Tax Revenues and such moneys. Such Special Tax Revenues and all moneys deposited into such funds are dedicated in their entirety to the payment of the principal of the Bonds that may be issued, and interest and any premium on, the Bonds, as provided in the Agreement and

in the Act, until all of the Bonds have been paid and retired or until moneys or Defeasance Securities have been set aside irrevocably for that purpose in accordance with the Agreement.

The Bonds are not secured by any amounts on deposit in the Administrative Expense Fund, or the Rebate Fund established under the Agreement. Any facilities financed with the proceeds of the Bonds are not in any way pledged to pay debt service on the Bonds.

In the Agreement, the City has agreed to effect the levy of the Special Taxes each fiscal year in accordance with the Act by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) that the Bonds are outstanding, such that the computation of the levy is complete before the final date on which the County Auditor-Controller will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the tax roll for the fiscal year then beginning. Upon the completion of the computation of the amounts of the levy of the Special Taxes, the City shall prepare or cause to be prepared, and shall transmit to the Auditor-Controller, such data as the Auditor-Controller requires to include the levy of the Special Taxes on the tax roll.

The City shall fix and levy the amount of Special Taxes within the District required for the payment of the principal of and interest on any outstanding Bonds becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund, and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied shall not exceed the authorized amounts for the District as provided in the proceedings for the formation of the District and in the Rate and Method. Such maximum amount may not be sufficient to fully replenish the Reserve Fund. In addition, no increase to the Special Taxes on any one parcel may exceed 10% to cover delinquencies caused by other parcels. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Prepayment of Special Taxes. Under the Rate and Method, the Special Tax obligation for any parcel within the District may be prepaid in full and permanently satisfied at anytime. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Any required or voluntary prepayment of Special Taxes will result in a mandatory redemption of Bonds. See “THE BONDS – Redemption – *Mandatory Redemption from Special Tax Prepayments.*”

Collection and Application of Special Taxes. The Agreement provides that the Special Taxes shall be payable and be collected (except in the event of judicial foreclosure proceedings pursuant to the Agreement) in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property. Notwithstanding the foregoing, the City Council may elect, as permitted by the Act, to collect the Special Taxes to be levied for any fiscal year directly from the owners of the parcels of taxable property upon which the Special Taxes are levied rather than by transmitting the Special Taxes to the Auditor-Controller for collection on the tax roll. The Special Taxes will be transferred to the Fiscal Agent and deposited in the Special Tax Fund established under the Agreement when received by the City. See “APPENDIX A – SUMMARY OF THE AGREEMENT.”

Under the Agreement, the City has covenanted that, (a) to the extent that it is legally permitted to do so, it will levy the Special Taxes for the payment of the Administrative Expenses which are expected to be incurred in each fiscal year; and (b) it will not initiate proceedings under the Act to reduce the maximum Special Tax rates for Developed Property (the “Maximum Rates”) below the amounts which are necessary to provide Special Tax Revenues in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the outstanding Bonds plus estimated Administrative Expenses for the then current fiscal year. The City has further covenanted that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant described in the preceding sentence. See “SPECIAL RISK FACTORS – Constitutional Amendment” herein.

Although the Special Tax will constitute a lien on the land within the District which is subject to taxation, it does not constitute a personal indebtedness of either of the current or any future property owners within the District. There is no assurance that the landowners within the District will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. The risk of property owners within the District not paying the annual Special Tax is more fully described under the heading “SPECIAL RISK FACTORS – Insufficiency of Special Taxes.”

Under the terms of the Agreement, not later than the ten Business Days after receipt from the City, all Special Tax Revenues received by the City are to be deposited by the Fiscal Agent in the Special Tax Fund. Special Tax Revenues (with the exception of Special Tax Revenues representing Prepayments) are to be applied by the Fiscal Agent under the Agreement in the following order of priority: (i) to deposit annually the Priority Administrative Expense Allocation to the Administrative Expense Fund; (ii) to pay the principal of and interest on the Bonds when due; (iii) to replenish the Reserve Fund to the Reserve Requirement; (iv) to deposit additional funds to the Administrative Expense Fund to pay Administrative Expenses of the District above the Priority Administrative Expense Allocation, referenced in (i) above; and (v) to transfer the remaining amounts to the Surplus Account. See “APPENDIX A – SUMMARY OF THE AGREEMENT.” Special Tax Prepayments shall be deposited in the Special Tax Prepayment Account of the Bond Fund as provided for in the Agreement and used to redeem Bonds. See “THE BONDS – Redemption of Bonds – *Mandatory Redemption from Special Tax Prepayments.*”

Reserve Fund

In order to secure the payment of principal and interest on the Bonds, the City will initially deposit Bond proceeds in an amount equal to the initial Reserve Requirement into the Reserve Fund held by the Fiscal Agent. The Reserve Requirement is, as of any date of calculation, the lesser of (i) ten percent (10%) of the original principal amount of the Bonds; (ii) Maximum Annual Debt Service on the Bonds; or (iii) 125 percent of average Annual Debt Service on the Bonds, as determined by the City.

All amounts on deposit in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or, in accordance with the provisions of the Agreement for the purpose of redeeming Bonds. In addition, the Agreement provides that whenever, on any September 2, the amount in the Reserve Fund, less Investment Earnings resulting from the investment of the funds therein which pursuant to the Agreement must be rebated to the United States, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess. The Fiscal Agent shall, subject to the requirements of the Agreement, transfer an amount from the Reserve Fund which will reduce the amount on deposit therein to an amount equal to the Reserve Requirement to the Interest Account and the Principal Account, in the priority specified in the Agreement, to be used for the payment of the interest on and principal of the Bonds on the next succeeding Interest Payment Date.

The Agreement provides that moneys in any fund or account created or established by the Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer’s Certificate filed with the Fiscal Agent at least two (2) business days in advance of the making of such investments. In the absence of any such Officer’s Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments as described in the Agreement. The Fiscal Agent shall not have any responsibility for determining the legality of any Permitted Investments and shall have no obligation to pay additional interest or maximize investment income on any funds held by it. The Agreement further provides that investments, other than investment agreements in which moneys in the Reserve Fund are invested, will be valued by the City at fair market value and marked-to-market at least once in each fiscal year. See “APPENDIX A – SUMMARY OF THE AGREEMENT” for a description of the Permitted Investments for amounts in the Reserve Fund.

Covenant for Superior Court Foreclosure

Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Taxes when due are included within the Special Tax Revenues pledged to the payment of principal of and interest on the Bonds under the Fiscal Agent Agreement.

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 City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$10,000 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 by the October 1 following the close of each fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied. See APPENDIX A — "SUMMARY OF THE AGREEMENT — Covenant to Foreclose."

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the Services District and the District. See "SPECIAL RISK FACTORS — Bankruptcy." 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 — Insufficiency of Foreclosure Sale Proceeds." 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 City 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.

Limited Liability

THE BONDS ARE PAYABLE SOLELY FROM THE PROCEEDS OF THE SPECIAL TAX TO BE LEVIED ANNUALLY ON THE TAXABLE PROPERTY IN THE LAND WITHIN THE DISTRICT AND AMOUNTS IN CERTAIN FUNDS ESTABLISHED UNDER THE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE DISTRICT, TO THE LIMITED EXTENT SET FORTH IN THE AGREEMENT) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF OR CHARGE, LIEN OR ENCUMBRANCE UPON ANY OF THE PROPERTY OR REVENUES OF THE CITY AND THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS IS NOT A GENERAL DEBT, LIABILITY OR OBLIGATION OF THE CITY OR THE DISTRICT.

THE DISTRICT

The Development

The District is located in Southern Orange County, at the northeast corner of Glenwood Drive and Aliso Creek Road, in the City. The District consists of approximately 104 gross acres. The property has been developed as 502 single family residential units, including 455 taxable units of residential property and 43 affordable units in Zone 1 and 4 taxable units in Zone 2. The affordable units are not subject to the lien of the Special Tax. All building permits had been pulled for the project as of March 1, 2013. The balance of the acreage in the District represents parcels which are exempt from the levy of the Special Tax and includes, slopes, open space, public right-of-way, affordable units, a City Conference Center, Aquatic Center and public park and property constituting a portion of the Aliso Viejo Country Club, a privately owned golf course.

The original use of the property comprising the District was a 27-hole golf course. The Jack Nicklaus-designed golf course, which was located on the property, was underperforming, and the then owners of the Property re-zoned the land to residential and received entitlements for 502 units to be constructed on 9 of the then existing 27 holes. The Aliso Country Club has been redesigned by the Nicklaus Group and is one of two Nicklaus-designed courses in Orange County.

The District is located within the master-planned community called "Glenwood at Aliso Viejo," which was developed in accordance with the Glenwood at Aliso Viejo Specific Plan approved by the City Council pursuant to Ordinance No. 2004-065 on November 3, 2004, (the "Specific Plan"). The Specific Plan authorized a total of 502 dwelling units and permanently designates and zones approximately 148 acres as recreation/open space, which includes the Aliso Viejo Golf Course, parks, and a trail system. The Developer acquired from the former owners 321 of the 326 parcels of land comprising the property on December 14, 2005. The remaining five parcels are currently owned by the Aliso Viejo Golf Club Joint Venture and will continue to be used for the Aliso Viejo Golf Course. The first building permit on the property was issued in October 2006 with the sale of the first unit being completed on October 23, 2007. All units were sold to individual property owners by October, 2013.

General Overview. The Specific Plan allowed for the development of a total of 502 dwelling units within the District. The 43 affordable attached units are not subject to the Special Tax. The development areas within the District are as follows:

Harbor Station: This is a town home community comprised of 141 single-family, market rate, attached homes. An additional 43 affordable homes, which are not subject to the Special Tax, are located in this project. The living areas have a range of 833 square feet to 1,526 square feet.

Pasadera: There are 149 single-family detached homes in this project. The living areas have a range of 2,218 square feet to 3,163 square feet.

Birch River: There are 69 single-family detached homes in this project and most of the homes have Golf Course views. The living areas have a range of 3,101 square feet to 3,425 square feet.

Vista Vallarta: There are 50 single-family detached homes in this project with living areas having a range of 3,474 square feet to 3,892 square feet. Many of the homes in this project have views of the Golf Course and the Saddleback Mountain Range.

Veranda: There are 50 single family detached homes in this project with living areas having a range of 3,167 square feet to 3,758 square feet.

Special Taxes securing the payment of the Bonds will be levied only in the District, and only the taxable property in the District is security for the Bonds.

Authorization

Pursuant to the Act, on March 16, 2005, the City Council adopted Resolution No. 2005-17 on March 16, 2005, stating its intention to establish the District and Resolution No. 2005-018, declaring the necessity for the District to incur bonded indebtedness. On April 20, 2005 following a duly noticed public hearing, the City Council adopted Resolution No. 2005-024 establishing the District and Resolution No. 2005-025 determining the necessity to incur bonded indebtedness in an amount not to exceed \$37,500,000 within the District. Pursuant to Resolution No. 2005-25, the City Council called an election pursuant to the Act. The owners of the land within the District voted in favor of the incurrence of bonded indebtedness in a principal amount not to exceed \$37,500,000 to finance certain public facilities, and the levy of the Special Tax consistent with the Rate and Method. The Bonds are secured solely by Special Tax Revenues generated within the District, including foreclosure proceeds obtained therein. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The Bonds were authorized to be issued by the Resolution of Issuance adopted by the City Council on January 8, 2014.

Rate and Method of Apportionment

The District is legally authorized and has covenanted in the Agreement to levy the Special Taxes in accordance with the Rate and Method. The Rate and Method divides the District into two zones. Zone 2 consists of parcels that are also within the boundaries of the County’s CFD No. 88-1. The County’s CFD No. 88-1 does not allow for the prepayment of the Special Tax. Consequently, in order to provide equity in the relative amount of the aggregate special taxes paid by the owners of parcels which are located within the District and CFD No. 88-1, the Zone 2 Special Taxes were established at a lower rate. There are four single-family detached houses within Zone 2. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more fully described therein. Pursuant to the Rate and Method, the amount of the Special Tax to be levied in each fiscal year can be levied for a period not to exceed 40 years commencing with Fiscal Year 2006/07. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

The table below summarizes the Taxable Property within the District by Land Use Classification, along with the estimated Fiscal Year 2014/15 Special Tax and allocation of the District's Bonds.

**TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)
OF THE CITY OF ALISO VIEJO
FISCAL YEAR 2014/15 DEVELOPMENT SUMMARY**

<u>Zone</u>	<u>Land Use</u>	<u>Residential Floor Area</u>	<u>Number of Units</u>	<u>Estimated Fiscal Year 2014/15 Special Tax^{(1)*}</u>	<u>Pro Rata Share of Bonds^{(2)*}</u>	<u>Percentage of Estimated Fiscal Year 2014/15 Special Tax Levy</u>	<u>Estimated Valuation⁽³⁾</u>
1	Residential	<1,901	141	\$ 417,574	\$ 6,853,750	19.87%	\$ 62,436,258
1	Residential	1,901-2,350	23	98,494	1,616,604	4.69	15,786,024
1	Residential	2,351-2,800	86	394,017	6,467,096	18.75	63,490,981
1	Residential	2,801-3,250	71	374,746	6,150,802	17.84	60,801,766
1	Residential	3,251-3,700	87	519,795	8,531,526	24.74	90,162,181
1	Residential	3,701-4,150	47	285,173	4,680,613	13.57	54,632,308
1	Residential	4,151-4,600	0	0	0	0.00	0
1	Residential	>4,600	0	0	0	0.00	0
2	Residential	<1,901	0	0	0	0.00	0
2	Residential	1,901-2,350	0	0	0	0.00	0
2	Residential	2,351-2,800	0	0	0	0.00	0
2	Residential	2,801-3,250	0	0	0	0.00	0
2	Residential	3,251-3,700	2	5,469	89,764	0.26	2,439,742
2	Residential	3,701-4,150	2	5,778	94,845	0.28	2,884,314
2	Residential	4,151-4,600	0	0	0	0.00	0
2	Residential	>4,600	0	0	0	0.00	0
	Total		459	\$2,101,046	\$34,485,000	100.00%	\$352,633,574

Source:

- (1) The total estimated Special Tax levy for Fiscal Year 2014/15 is calculated as of sum of the estimated debt service on the Bonds for Bond Year ending 2015 and estimated Administrative Expenses, plus an additional 1% for estimated delinquencies. Preliminary, subject to change.
- (2) Allocated based on the proportionate share of the estimated Special Tax levy for Fiscal Year 2014/15 and the estimated initial principal amount of the Bonds. Preliminary, subject to change.
- (3) Based on values listed on the Orange County Assessor Roll for Fiscal Year 2013/14 ("Secured Roll"); a total of 64 developed and individually owned parcels were listed on the Secured Roll under the ownership of Shea Homes, including 44 parcels with zero (0) improvement value. The improvement values and total assessed values were updated on all 64 parcels based on sales price information obtained from CoreLogic.

* Preliminary, subject to change.

The table shown below sets forth the ratio of the Effective Maximum Special Taxes, as described in footnote (1) below, for all categories of Taxable Property to the total debt service on the Bonds. As described in footnote (1) below, the actual Maximum Special Tax prescribed by the Rate and Method is higher, but due to limitations imposed by Section 53321(d) of the California Government Code, the ability of the City to increase Special Taxes on property owners is constrained to 10% above what the levy would have been had there not been any delinquencies.

TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)
OF THE CITY OF ALISO VIEJO
COVERAGE

Bond Year Ending	Effective Maximum Special Taxes⁽¹⁾	Estimated Administrative Expenses⁽²⁾	Total Debt Service⁽³⁾	Total Coverage Based on Effective Maximum Special Taxes
2015	\$2,288,267.90	\$35,149.78	\$2,045,093.76	110.17%
2016	2,337,166.19	35,852.78	2,088,843.76	110.17
2017	2,385,034.95	36,569.83	2,131,643.76	110.17
2018	2,430,279.49	37,301.23	2,172,043.76	110.17
2019	2,472,900.12	38,047.25	2,210,043.76	110.17
2020	2,522,687.15	38,808.20	2,254,543.76	110.17
2021	2,573,865.94	39,584.36	2,300,293.76	110.17
2022	2,626,161.79	40,376.05	2,347,043.76	110.17
2023	2,684,800.06	41,183.57	2,399,543.76	110.17
2024	2,737,626.10	42,007.24	2,446,743.76	110.17
2025	2,786,730.26	42,847.39	2,490,543.76	110.17
2026	2,845,546.65	43,704.34	2,543,156.26	110.17
2027	2,898,036.26	44,578.42	2,590,000.00	110.17
2028	2,965,924.49	45,469.99	2,650,825.00	110.17
2029	3,022,392.33	46,379.39	2,701,250.00	110.17
2030	3,079,925.18	47,306.98	2,752,625.00	110.17
2031	3,141,947.18	48,253.12	2,808,062.50	110.17
2032	3,202,958.75	49,218.18	2,862,562.50	110.17
2033	3,272,516.55	50,202.54	2,924,812.50	110.17
2034	3,332,979.75	51,206.59	2,978,775.00	110.17
2035	3,405,936.30	52,230.73	3,044,075.00	110.17
2036	3,468,231.62	53,275.34	3,099,662.50	110.17
2037	3,536,366.18	54,340.85	3,160,537.50	110.17
2038	3,609,474.18	55,427.66	3,225,912.50	110.17

Source: Koppel & Gruber Public Finance.

- (1) The Maximum Special Tax that can be levied on Taxable Property in the District in Fiscal Year 2014/15 is \$3,123,753, which may increase by two percent (2%) per fiscal year. However, pursuant to Section 53321(d) of the California Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District by more than ten percent (10%) above the amount that would have been levied in the fiscal year had there never been any such delinquencies or defaults. Due to the limitation, the effective maximum special tax shown is calculated as the sum of the estimated annual debt service on the Bonds and anticipated Administrative Expenses multiplied by 110%.
- (2) Represents the maximum authorized amount for Priority Administration Expense Allocation determined pursuant to and as further described in the Fiscal Agent Agreement executed in connection with the Bonds and dated January 1, 2014.
- (3) Represents the estimated annual debt service on the Bonds. Preliminary, subject to change.

Historical Levies and Tax Delinquencies

Special Taxes for the District were first levied in Fiscal Year 2007/08. The following table illustrates the historical Special Tax delinquencies from Fiscal Year 2007/08 to the present for property located within the District. The Fiscal Year 2013/14 levy was \$2,338,854 with half of the full levy collected in each installment. The first installment was due on December 10, 2013 and the second installment will be due on April 10, 2014. As of January 4, 2014, delinquencies for the first installment of the Special Tax for Fiscal Year 2013/14 were at 6.11% as reported by the County of Orange Treasurer-Tax Collector. The City expects the full reporting of the December 10, 2013 collection will occur on January 20, 2014. The City anticipates updating the final Official Statement with such information, if available.

TABLE 3
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)
OF THE CITY OF ALISO VIEJO
SPECIAL TAX LEVIES AND DELINQUENCIES

<u>Fiscal Year</u>	<u>Amount Levied</u>	<u>Total Number of Parcels Subject to Levy</u>	<u>As of Fiscal Year End</u>				<u>As of January 4, 2014</u>		
			<u>Amount Collected</u>	<u>Amount Delinquent</u>	<u>Number of Delinquent Parcels</u>	<u>Percent Delinquent</u>	<u>Remaining Amount Delinquent</u>	<u>Remaining Parcels Delinquent</u>	<u>Remaining Percent Delinquent</u>
2007/08	\$ 61,812 ⁽¹⁾	4	\$ 61,812	\$ 0	0	0.00% ⁽²⁾	\$ 0	0	0.00%
2008/09	304,332 ⁽¹⁾	65	296,654	7,678	3	2.52 ⁽³⁾	0	0	0.00
2009/10	1,724,445	356	1,719,262	5,183	2	0.30 ⁽⁴⁾	0	0	0.00
2010/11	2,108,555	372	2,096,851	11,704	4	0.56 ⁽⁵⁾	0	0	0.00
2011/12	2,134,306	449	2,112,651	21,655	8	1.01 ⁽⁶⁾	1,584	1	0.07
2012/13	2,116,221	449	2,104,782	11,439	6	0.54 ⁽⁷⁾	2,725	2	0.13

⁽¹⁾ Capitalized interest was used to fund a portion of the debt service payments.

⁽²⁾ Delinquent as of June 30, 2008.

⁽³⁾ Delinquent as of July 4, 2009.

⁽⁴⁾ Delinquent as of July 3, 2010.

⁽⁵⁾ Delinquent as of July 2, 2011.

⁽⁶⁾ Delinquent as of July 5, 2012.

⁽⁷⁾ Delinquent as of July 3, 2013.

Source: County Auditor-Controller; compiled by Koppel & Gruber Public Finance.

Estimated Direct and Overlapping Debt

The property within the District is within the jurisdiction of several overlapping local agencies providing public services. The direct and overlapping debt secured by such taxes, assessments, and charges as of Fiscal Year 2013/14 in Zone 1 and Zone 2 is shown on the following tables (the “Debt Report”). The Debt Report is based on data obtained by Koppel & Gruber Public Finance, Special Tax Consultant, from National Tax Data, Inc., and is included for general information purposes only. Neither the City nor the Underwriter makes representations as to its completeness or accuracy.

**TABLE 4
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)
OF THE CITY OF ALISO VIEJO
DIRECT AND OVERLAPPING DEBT SUMMARY**

Overlapping District	Total Debt Outstanding	Percent Applicable to District	District Share of Total Debt Outstanding
Metropolitan Water District ⁽¹⁾	\$165,085,000	0.01461%	\$ 24,119
Moulton Niguel Water District ID No. 6 1978 Election ⁽¹⁾	14,425,000	8.47029	1,221,840
Capistrano Unified School District CFD No. 87-1 ⁽¹⁾	35,900,000	3.35977	1,206,157
County of Orange CFD No. 88-1	0	0	0
	Estimated Share of Overlapping Debt		\$ 2,452,116
		Plus Bonds: ⁽²⁾	<u>34,485,000</u>
	Estimated Share of Direct and Overlapping Debt⁽²⁾		\$36,937,116

Source: Koppel & Gruber Public Finance.

⁽¹⁾ Based on overlapping debt information reported by National Tax Data, Inc. as of December 18, 2013.

⁽²⁾ Preliminary, subject to change.

Set forth on the following page is Table 5 which provides, for all Special Tax categories of actual Taxable Property, the estimated property tax bill for Fiscal Year 2013/14.

TABLE 5
Community Facilities District No. 2005-01
(Glenwood at Aliso Viejo)
of the City of Aliso Viejo
Estimated Total Effective Tax Rate

		<u>ZONE 1</u>					<u>ZONE 2</u>		
		<u>Land Use Class</u>	<u>Land Use Class</u>	<u>Land Use Class</u>	<u>Land Use Class</u>	<u>Land Use Class</u>	<u>Land Use Class</u>	<u>Land Use Class</u>	<u>Land Use Class</u>
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>Class 5</u>	<u>Class 6</u>
		<u><1,901</u>	<u>1,901-2,350</u>	<u>2,351-2,800</u>	<u>2,801-3,250</u>	<u>3,251-3,700</u>	<u>3,701-4,150</u>	<u>3,251-3,700</u>	<u>3,701-4,150</u>
Assessed Values									
Average Land Value ⁽¹⁾		\$229,714.00	\$348,593.00	\$356,906.00	\$364,114.00	\$ 435,528.00	\$ 478,673.00	\$ 616,889.00	\$ 816,355.00
Average Improvement Value ⁽¹⁾		213,097.00	337,756.00	381,362.00	492,249.00	600,819.00	683,716.00	602,982.50	625,802.00
Homeowner's Exemption		(7,000.00)	(7,000.00)	(7,000.00)	(7,000.00)	(7,000.00)	(7,000.00)	(7,000.00)	(7,000.00)
Estimated Net Assessed Value⁽²⁾		\$435,811.00	\$679,349.00	\$731,268.00	\$849,363.00	\$1,029,347.00	\$1,155,389.00	\$1,212,871.50	\$1,435,157.00
Ad Valorem Property Taxes⁽³⁾	<u>Tax Rate</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
Basic Levy	1.00000%	\$ 4,358.11	\$ 6,793.49	\$ 7,312.68	\$ 8,493.63	\$ 10,293.47	\$ 11,553.89	\$ 12,128.72	\$ 14,351.57
MWD charge	0.00350%	15.25	23.78	25.59	29.73	36.03	40.44	42.45	50.23
Moulton Niguel ID #6 Bond ⁽⁴⁾	0.12977%	298.10	452.37	463.16	472.51	565.18	621.17	800.54	1,059.38
Subtotal Ad Valorem Property Taxes		\$ 4,671.46	\$ 7,269.64	\$ 7,801.43	\$ 8,995.87	\$ 10,894.68	\$ 12,215.50	\$ 12,971.71	\$ 15,461.18
Assessments, Charges and Special Taxes		<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
Mosquito and Fire Ant Assessment ⁽⁵⁾		\$ 3.00	\$ 5.02	\$ 5.02	\$ 5.02	\$ 5.02	\$ 5.02	\$ 5.02	\$ 5.02
Vector Control ⁽⁵⁾		0.66	1.92	1.92	1.92	1.92	1.92	1.92	1.92
Metropolitan Water District Standby Charge ⁽⁶⁾		10.08	10.08	10.08	10.08	10.08	10.08	10.08	10.08
Capistrano Unified CFD No. 87-1 ⁽⁷⁾		365.87	640.75	915.63	1,432.44	1,436.65	1,465.38	1,436.65	1,436.65
Orange County CFD No. 88-1 ⁽⁸⁾		NA	NA	NA	NA	NA	NA	0.00	0.00
City CFD No. 2005-01 ⁽⁹⁾		3,296.72	4,767.04	5,100.16	5,875.52	6,650.90	6,754.26	3,044.02	3,216.32
Subtotal Assessments, Charges and Special Taxes		\$3,676.33	\$ 5,424.81	\$ 6,032.81	\$ 7,324.98	\$ 8,104.57	\$ 8,236.66	\$ 4,497.69	\$ 4,669.99
Total Estimated Property Tax		\$8,347.79	\$12,694.45	\$13,834.24	\$16,320.85	\$ 18,999.25	\$ 20,452.16	\$ 17,469.40	\$ 20,131.17
Estimated Effective Tax Rate		1.92%	1.87%	1.89%	1.92%	1.85%	1.77%	1.44%	1.40%

(1) Estimated average assessed values of taxable Residential Developed Property within each land use classification under the Modified Rate & Method; assessed values are based on values listed on the Orange County Assessor Roll for Fiscal Year 2013/14 ("Secured Roll"); a total of 64 developed and individually owned parcels were listed on the Secured Roll under the ownership of Shea Homes, including 44 parcels with zero (0) improvement value. The improvement values and total assessed values were updated on all 64 parcels based on sales price information obtained from CoreLogic.

(2) Net Assessed Value reflects estimated total assessed value for a parcel net of homeowner's exemption. Not all residences qualify for homeowner's exemption.

(3) Based on Fiscal Year 2013/14 rates for Tax Rate Area 34-019 which represents the ad valorem rate for CFD parcels. Ad valorem rates are subject to change in future years.

(4) Assessed on land value only.

(5) Based on the actual Fiscal Year 2013/14 rate applicable to single family attached units for Land Use Class 1 and the rate applicable to single family detached units for all other Land Use Classes.

(6) The standby charge is applied at \$10.08 per acre or portion thereof. Not all parcels within the CFD are subject to the standby charge.

(7) Based on the Fiscal Year 2013/14 charges applied by Capistrano Unified School District Community Facilities District No. 87-1. Charges are subject to change in future fiscal years.

(8) Only parcels located within Zone 2 of the CFD are subject to taxes applied by County Community Facilities District No. 88-1(CFD No. 88-1). The outstanding bonds secured through the levy of CFD No. 88-1 Special Taxes have been fully redeemed. Therefore, no Special Taxes were levied in Fiscal Year 2013/14. However, it is possible Special Taxes could be levied in future years to fund additional authorized facilities.

(9) Based on the actual Fiscal Year 2013/14 Special Taxes for each land use classification.

Source: Koppel & Gruber Public Finance.

The City has no control over the amount of additional debt payable from special taxes or assessments levied on all or a portion of the property within the District that may be incurred in the future by other governmental agencies having jurisdiction over such property. Furthermore, nothing prevents owners of property within the District from consenting to the issuance of such debt by other governmental agencies. To the extent that such indebtedness is payable from assessments, special taxes levied pursuant to the Act, or other taxes, such assessments, special taxes, and other taxes will be secured by liens on the property within the District on a parity with the lien of the Special Taxes.

The incurrence of any such additional indebtedness could cause the total debt on the property within the District to increase without any corresponding increase in the value of such property, thereby reducing (perhaps dramatically) the estimated value-to-lien ratios that exist at the time the Bonds are issued. The incurrence of such additional indebtedness could reduce the willingness and ability of the property owners within the District to pay special taxes when due. See “SPECIAL RISK FACTORS –Parity Taxes and Special Assessments.”

Property Assessed Values

The most recent assessed value reported by the County Assessor for the taxable property in the District was as of January 1, 2013, which assessed value totaled \$320,527,906. A total of 64 developed and individually owned parcels were listed on the Secured Roll under the ownership of Shea Homes, including 44 parcels with zero (0) improvement value. The assessed values of property in the District discussed in this Official Statement are from the County Assessor’s assessment roll for Fiscal Year 2013/14 (as of the January 1, 2013 lien date). These assessed values represent the “full cash value” of such property as determined by the County Assessor. Pursuant to rules of the State Board of Equalization that govern the County Assessor’s valuation of property in the District, “full cash value” of real property means the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any enforceable governmental restrictions) would transfer for cash or its equivalent under prevailing market conditions. These rules also provide that when valuing property as a result of a change in ownership for consideration it shall be rebuttably presumed that the consideration valued in money (i.e., the purchase price), whether paid in money or otherwise, is the full cash value of the property. Pursuant to the California Constitution, the full cash value of property may reflect from year to year the inflationary rate not to exceed two percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

No assurance can be given, therefore, that the assessed value of property in the District will not be reduced by the County Assessor for Fiscal Year 2014/15 or for any subsequent fiscal year.

See “SPECIAL RISK FACTORS – Reduction of Assessed Values.”

Assessed values, as determined by the County Assessor, may not reflect the actual market value of property in the District (e.g., homes in the District might sell for more or less than the County Assessor’s assessed value). The City does not intend to have an appraisal prepared to estimate the market value of any property in the District.

Table 6 shows annual changes in assessed valuations for all Taxable Property in the District for Fiscal Years 2007/08 through 2013/14.

TABLE 6
Community Facilities District No. 2005-01
(Glenwood at Aliso Viejo)
of the City of Aliso Viejo
Historical Assessed Valuation

<u>Fiscal Year</u>	<u>Number of Parcels Subject to Levy (Taxable Property)</u>	<u>Secured Assessed Land Value</u>	<u>Secured Assessed Improvement Value</u>	<u>Total Secured Assessed Value for Taxable Property</u>	<u>Percent Change</u>
2007/2008	322	\$123,122,160	\$ 428,961	\$123,551,121	NA
2008/2009	345	125,351,497	19,967,206	145,318,703	17.62%
2009/2010	356	135,164,874	43,071,593	178,236,467	22.65
2010/2011	372	125,873,787	70,713,188	196,586,975	10.30
2011/2012	449	134,100,929	107,127,327	241,228,256	22.71
2012/2013	449	149,735,471	136,910,650	286,646,121	18.83
2013/2014	459	160,208,290	160,319,616	320,527,906	11.82

Source: County of Orange Assessor; compiled by Koppel & Gruber Public Finance.

Estimated Total Valuation of All Taxable Property Within the District

The following tables show the estimated valuation of taxable property in summary form based upon existing development within the District. The first table shows the pro-rata share of Bonds allocated by Estimated Fiscal Year 2014/15 Special Tax levy summarized based on value-to-lien ratios ranges. Such lien includes only the Bonds and does not include any other overlapping tax and assessment debt. The second table also shows the pro-rata share of the Bonds based on value-to-lien ratios, but includes a lien with the value-to-lien ranges of Taxable Property within the District however the lien includes both the Bonds and other overlapping tax and assessment debt.

**TABLE 7 *
Community Facilities District No. 2005-01
(Glenwood at Aliso Viejo)
of the City of Aliso Viejo
Value to Lien Ratios of Residential Developed Property
District Debt Only**

<u>Current Assessed Value-to-Lien</u>	<u>Units Taxed</u>	<u>Estimated Special Tax Levy Fiscal Year 2014/2015⁽¹⁾</u>	<u>Percentage of Estimated Fiscal Year 2014/15 Special Tax Levy</u>	<u>Estimated Total Value⁽²⁾</u>	<u>Pro Rata Share of Bonds⁽³⁾</u>	<u>Value-to-Lien Ratio⁽⁴⁾</u>
Less Than 5.01	0	\$ 0	0.00%	\$ 0	\$ 0	N/A
5.01 to 10.00	287	1,174,713	55.91	177,767,730	19,280,864	9.22:1
10.01 to 15.00	167	909,807	43.30	168,197,788	14,932,895	11.26:1
15.01 to 20.00	1	5,278	0.25	1,344,000	86,631	15.51:1
20.01 to maximum	<u>4</u>	<u>11,248</u>	<u>0.54</u>	<u>5,324,056</u>	<u>184,610</u>	28.84:1
Total	459	\$2,101,046	100.00%	\$352,633,574	\$34,485,000	10.23:1

Source: Compiled by Koppel & Gruber Public Finance.

- (1) The total estimated Special Tax levy for Fiscal Year 2014/15 is calculated as of sum of the estimated debt service on the Bonds for Bond Year ending 2015 and estimated Administrative Expenses, plus an additional 1% for estimated delinquencies.
- (2) Based on values listed on the Orange County Assessor Roll for Fiscal Year 2013/14 ("Secured Roll"); a total of 64 developed and individually owned parcels were listed on the Secured Roll under the ownership of Shea Homes, including 44 parcels with zero (0) improvement value. The improvement values and total assessed values were updated on all 64 parcels based on sales price information obtained from CoreLogic.
- (3) Allocated based on the proportionate share of the estimated Special Tax levy for Fiscal Year 2014/15 and the estimated initial principal amount of the Bonds.
- (4) Calculated as the Estimated Total Value divided by the Pro Rata Share of Bonds.

* Preliminary, subject to change.

TABLE 8 *
Community Facilities District No. 2005-01
(Glenwood at Aliso Viejo)
of the City of Aliso Viejo
Value to Lien Ratios of Residential Developed Property
Including Overlapping General Obligation and Special Tax Debt

Current Assessed Value-to-Lien	Units Taxed	Estimated Fiscal Year 2014/15 Special Tax⁽¹⁾	Percentage of Estimated Fiscal Year 2014/15 Special Tax Levy	Estimated Total Value⁽²⁾	Pro Rata Share of Bonds⁽³⁾	Overlapping Debt⁽⁴⁾	Total Debt Outstanding	Value- to-Lien Ratio⁽⁵⁾
Less Than 3.01	0	\$ 0	0.00%	\$ 0	\$ 0	\$ 0	\$ 0	N/A
3.01 to 5.00	1	4,582	0.22	386,966	75,199	4,409	79,608	4.86:1
5.01 to 10.00	365	1,567,218	74.59	244,672,358	25,723,150	1,747,357	27,470,507	8.91:1
10.01 to 15.00	89	517,999	24.65	102,250,194	8,502,042	664,014	9,166,056	11.16:1
15.01 to 20.00	0	0	0.00	0	0	0	0	N/A
20.01 to maximum	4	11,248	0.54	5,324,056	184,610	36,336	220,946	24.1:1
Total	459	\$2,101,046	100.00%	\$352,633,574	\$34,485,000	\$2,452,116	\$36,937,116	9.55:1

Source: Compiled by Koppel & Gruber Public Finance.

- (1) The total estimated Special Tax levy for Fiscal Year 2014/15 is calculated as of sum of the estimated debt service on the Bonds for Bond Year ending 2015 and estimated Administrative Expenses, plus plus an additional 1% for estimated delinquencies.
- (2) Based on values listed on the Orange County Assessor Roll for Fiscal Year 2013/14 ("Secured Roll"); a total of 64 developed and individually owned parcels were listed on the Secured Roll under the ownership of Shea Homes, including 44 parcels with zero (0) improvement value. The improvement values and total assessed values were updated on all 64 parcels based on sales price information obtained from CoreLogic.
- (3) Allocated based on the proportionate share of the Special Tax levy for Fiscal Year 2014/15 and the estimated initial principal amount of the Refunding Bonds.
- (4) Based on overlapping debt information reported by National Tax Data, Inc. as of December 18, 2013.
- (5) Calculated as the Estimated Total Value divided by the Total Debt Outstanding.

Notwithstanding the foregoing and following discussions and estimates of value, there is no assurance that, in the event of a foreclosure sale for delinquent Special Taxes, any bid would be received for such property or that any bid received would be sufficient to pay such delinquent Special Taxes. See the section herein entitled "SPECIAL RISK FACTORS."

The District has no control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, may be on a parity with the Special Taxes and be secured by a lien on a parity with the lien securing payment of the Special Taxes. See "SECURITY FOR THE BONDS - Direct and Overlapping Debt" herein.

Top Taxpayers

All parcels in the District are classified as Developed Property for the Fiscal Year 2014/15 Special Tax levy. Based on ownership status as of July 1, 2013 as provided by the County of Orange Secured Roll and CoreLogic, no individual homeowner is responsible for more than 0.50% of the estimated Fiscal Year 2014/15 Special Tax levy.

* Preliminary, subject to change.

SPECIAL RISK FACTORS

Investment in the Bonds involves risks which may not be appropriate for certain investors. The following is a discussion of certain risk factors, in no particular order of importance, all of which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of existing or future property owners within the District to pay the Special Taxes levied in the District when due. Such failure to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District.

Risks of Real Estate Secured Investments Generally

The Owners of the 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 buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, fires and floods), which may result in uninsured losses.

No assurance can be given that the individual homeowners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “SPECIAL RISK FACTORS – Insufficiency of Foreclosure Sale Proceeds” below, for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

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

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 Undeveloped Property or as Developed Property and on the zone and land use class to which a parcel of property is assigned. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and “SECURITY FOR THE BONDS – Special Taxes.”

The Rate and Method governing the levy of the Special Tax expressly allows the District Administrator to classify certain property as exempt from the levy of special Taxes, including 43 units of affordable residential housing, property owned by public agencies or a property owner association, any property used as a golf course within the District (including any clubhouse, pro shop, parking, maintenance facilities, and other golf related amenities), and certain other public or quasi-public uses, provided that no such classification by the District Administrator would reduce the sum of all taxable property within the District to less than 42.32 acres. See “APPENDIX C – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Property Values

The value of property within the District is an important factor in evaluating the investment quality of the Bonds. If a property owner defaults in the payment of an installment of Special Taxes, the City's only remedy is to judicially foreclose the lien of the Special Taxes on the delinquent parcel. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed values described herein at a foreclosure sale for delinquent Special Taxes or for an amount adequate to pay delinquent Special Taxes. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure" and "- Property Assessed Values." Also, property values are not evenly distributed throughout the District. This disparity of values across the District is significant because, as mentioned above, if property owners become delinquent in the payment of Special Taxes, the District's only remedy is to foreclose against delinquent parcels. See "THE DISTRICT - Property Assessed Values" and " – Estimated Direct and Overlapping Debt."

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the 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 FOR THE BONDS – Special Taxes," for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Agreement, in the event of delinquencies in the payment of Special Taxes. See "– Insufficiency of Foreclosure Sale Proceeds" below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the "FDIC") regarding the payment of special taxes and assessment and limitations on the City's ability to foreclose on the lien of the Special Taxes in certain circumstances. Currently, for Fiscal Year 2013/14 Special Taxes have been levied on 459 parcels, within the District, for a total of \$2,338,854.

The value of the land within the District is an important factor in determining the investment quality of the Bonds. If a property owner within the District is delinquent in the payment of the Special Taxes, the City's only remedy is to commence foreclosure proceedings on such taxable property on behalf of the District in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes.

Reduction of Assessed Values

The City does not make any representation as to whether the assessed value of property in the District or the value-to-lien ratios for such property will remain at the assessed values or the ratios discussed in this Official Statement.

The assessed values of property in the District, as discussed herein, are from the County Assessor's assessment roll for Fiscal Year 2013/14 (as of the January 1, 2013 lien date). These assessed values represent the County Assessor's determination of the "full cash value" of property in the District. Pursuant to the California Constitution, the full cash value of property may reflect from year to year the inflationary rate not to exceed two percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

Pursuant to rules of the California State Board of Equalization that govern the County Assessor's valuation of property in the District, "full cash value" of real property means the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any enforceable governmental restrictions) would transfer for cash or its equivalent under prevailing market conditions. These rules also provide that when valuing property as a result of a change in ownership for consideration it shall be rebuttably presumed that the consideration valued in money (i.e., the purchase price), whether paid in money or otherwise, is the full cash value of the property. This presumption may, however, be rebutted (e.g., in an assessment appeal

by a property owner) by evidence that the full cash value of property is significantly more or less than the total cash equivalent of the consideration paid for the property. A significant deviation means a deviation of more than five percent of the total consideration. The Board of Equalization rules also provide that in estimating value, the assessor shall consider one or more valuation approaches, including the comparative sales approach, which is the preferred method of valuation. The rule further provides that when reliable marked data are available, the preferred method of valuation is by reference to sales prices.

Accordingly, the assessed values of the property in the District could be reduced if sales prices of property in the District decline. Recent reports by real estate industry reporting services indicate that home sales prices are declining in some parts of Southern California. If the County Assessor determines that sales prices for residential property or other property in the District have declined since January 1, 2013, the County Assessor could reduce assessed values of property in the District for Fiscal Year 2013/14. Also, homeowners in the District who perceive that their property will sell for less than current assessed value, may initiate statutory assessment appeals in an effort to have the assessed value of their property reduced.

No assurance can be given that the assessed value of property in the District will not be reduced by the County Assessor for Fiscal Year 2014/15 or for any subsequent fiscal year.

The County Assessor's assessed values may not reflect the actual market value of property in the District (e.g., homes in the District might sell for more or less than the County Assessor's assessed value). The District does not intend to have an appraisal prepared to estimate the market value of any property in the District.

Depletion of Reserve Fund

In order to pay debt service on the Bonds, it is necessary that the Special Tax levied within the District be paid in a timely manner. Should the Special Tax not be paid on time, the District has established a Reserve Fund with respect to the Bonds in the initial amount specified under the heading "REFUNDING PLAN – Sources and Uses of Funds" to pay debt service on the Bonds to the extent other funds are not available therefore. Under the Fiscal Agent Agreement, the City has covenanted to maintain in the Reserve Fund an amount equal to the Reserve Requirement, with the sole source of moneys to replenish the Reserve Fund being Special Tax Revenues collected that are in excess of Bond debt service and Administrative Expenses. See Appendix A hereto. If a sufficient number of property owners in the District are delinquent in the payment of the Special Tax, the City may be unable to replenish the Reserve Fund to the Reserve Requirement. If such defaults were to continue in successive years, the Reserve Fund would soon be depleted and a default on the Bonds would occur.

Insufficiency of Foreclosure Sale Proceeds

The City has covenanted to institute foreclosure proceedings to sell the property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds, subject to the limitations set forth in the Fiscal Agent Agreement. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder with respect to a deed of trust on property within the District could, but would not be required to, advance the amount of delinquent Special Taxes to protect its security interest. See "SECURITY FOR THE BONDS – Covenant for Superior Court Foreclosure" for provisions which apply in the event foreclosure is required and which the City is required to follow in the event of delinquency in the payment of Special Taxes. In the event such superior court foreclosure or foreclosures are necessary, there could be a delay in payments to Bondowners pending prosecution of the foreclosure sale, if the Reserve Fund were depleted.

No assurances can be given that the 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. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the City with regard to purchasing or otherwise acquiring any property at the execution sale pursuant to the judgment in any such action if there is no other purchaser at such sale. The City has no obligation to be a bidder at a foreclosure sale.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties in the District on the regular property tax bills sent to owners of such properties. The Special Tax installments are due and payable on the same dates, and bear the same penalties and interest for non-payment, as general ad valorem property tax installments. Special Tax installments cannot be paid separately from general ad valorem property tax payments. Therefore, the unwillingness or inability of a property owner to pay general property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make general property tax payments and Special Tax installment payments in the future.

The total amount of the Special Taxes levied on property in the District for Fiscal Year 2012/13 was \$2,116,221. As of September 10, 2013, these Special Taxes were delinquent in the amount of \$7,221 for a delinquency rate of 0.34%. As of January 4, 2014, the Fiscal Year 2012/13 delinquencies had been reduced to \$24,725 for a delinquency rate of 0.13%.

See "THE DISTRICT - Historical Levies and Tax Delinquencies." See also "SECURITY FOR THE BONDS – Reserve Fund" and " - Covenant for Superior Court Foreclosure," for a discussion of the obligations of the District in the event of delinquency in the payment of Special Tax installments.

Payment of Special Taxes

The levy of special taxes can result in a significantly greater property tax burden being imposed upon properties within a community facilities district than in other areas of a city or county, and this added burden can result in problems in the collection of the special taxes. In some community facilities districts, the property owners have refused to pay the special taxes and have commenced litigation challenging the special taxes, the establishment of the District and the bonds issued by the District.

The Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the properties in the District on the regular property tax bills sent to owners of such properties. Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills, as evidenced by property tax delinquencies, may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. See "THE DISTRICT - Historical Levies and Tax Delinquencies."

The Maximum Special Tax that can be levied on Taxable Property in the District in Fiscal Year 2014/15 is \$3,123,753, which amount may escalate by 2% per fiscal year. Although this provides approximately 150%* coverage of debt service, pursuant to Section 53321(d) of the California Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency of default by the owner of any other Assessor's parcel within the District by more than ten percent (10%) above the amount that would have been levied in the fiscal year had there never been any such delinquencies of defaults. See "SECURITY FOR THE BONDS – Special Taxes." Thus, while the annual debt service on the Bonds payable from Special Taxes levied in Fiscal Year 2014/15 is estimated to be \$2,045,093.76* and the amount of Special Tax that can be deducted for payment of Priority Administrative Expenses before payment of Bond debt service which is \$35,149.78 for Fiscal Year 2014/15 and escalates by 2% each fiscal year (see "SECURITY FOR THE BONDS – Special Taxes"), for a total of \$2,288,267.90*, or approximately 65% of the annual Maximum Special Tax, the Effective Maximum Special Tax that could be levied on Taxable Property in the event of delinquencies in payment of Special Tax is 110% of the Special Tax that would have been levied had there not been a delinquency. See "THE DISTRICT – Rate and Method of Apportionment."

* Preliminary, subject to change.

An owner of a taxable parcel is not personally obligated to pay the Special Taxes which are levied on his or her parcel. Rather, the Special Taxes are an obligation which is secured only by a lien upon the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to fully secure the Special Taxes, the District has no recourse against the owner.

See “SECURITY FOR THE BONDS – Reserve Fund” and “- Covenant for Superior Court Foreclosure,” for a discussion of the obligations of the District in the event of delinquency in the payment of Special Tax installments.

The ability of the District to increase the amount of Special Taxes which may be levied and to pay costs of foreclosure proceedings may be limited by voter initiative. See “Constitutional Amendment” and “Limitations on Remedies” below.

Bankruptcy

The payment of property owners’ taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to the foreclosure covenant, may be limited by bankruptcy, insolvency, or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “Limitations on Remedies” below and “SECURITY FOR THE BONDS - Covenant for Superior Court Foreclosure.” The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal documents, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien. The amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full. The prosecution of foreclosure proceedings could also be delayed for other reasons, including crowded court calendars and procedural delaying tactics. See “Limitations on Remedies” below.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as ad valorem taxes. Pursuant to the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, enacted by Congress on April 14, 2005, the lien for special taxes established after the filing of a petition in bankruptcy will be treated thereafter as a lien for ad valorem taxes.

Payments by FDIC and Other Federal Agencies

The ability of the City to collect interest and penalties allowed by State law and to foreclose on property with delinquent Special Taxes may be limited if the Federal Deposit Insurance Corporation (the “FDIC”) has or obtains an interest in the property. The FDIC would obtain such an interest by taking over a financial institution which has made a loan which is secured by real property within the District.

The FDIC has issued a policy statement (the “Policy Statement”) which provides that real property owned by the FDIC is subject to state and local property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the affairs of the institution for which the FDIC is acting, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and

will not pay or recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay the taxes. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without its consent.

The Policy Statement provides that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Community Facilities Act and any special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity.

The City is unable to predict what effect the FDIC's application of the Policy Statement would have if there were a delinquency in Special Taxes levied on a parcel in the District in which the FDIC had an interest. However, it should be assumed that there would not be a buyer at a foreclosure sale if the FDIC's lien could not be foreclosed. It should also be assumed that the City will be unable to foreclose on any parcel owned by the FDIC. In either event, there would be a draw on the Reserve Account and, if the delinquency continued, there could be a default in payment of principal of and interest on the Bonds.

Furthermore, if a parcel of taxable property in the District was owned by a federal government entity or federal government sponsored entity, such as the Federal National Mortgage Association or Fannie Mae or the Federal National Home Loan Corporation or Freddie Mac, or if a private mortgage secured by a parcel of taxable property was owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability of the City to foreclose on the parcel or to collect delinquent Special Taxes would be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution^{*}, 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. Therefore, if a federal government entity, such as Fannie Mae or Freddie Mac, owned a parcel of taxable property in the District and did not pay the taxes and assessments levied on the parcel (including the Special Taxes), the City would not be able to foreclose on the parcel to collect the delinquent Special Taxes.

Also, if a federal government entity, such as Fannie Mae or Freddie Mac, had a mortgage interest in a parcel in the District and the City wished to foreclose on the parcel to collect delinquent Special Taxes, the property could not be sold at a foreclosure sale unless it could be sold for an amount sufficient to pay the delinquent Special Taxes and the other taxes and assessments on a parity with those Special Taxes and preserve the federal government entity's mortgage interest.

In *Rust v. Johnson* (9th Circuit; 1979) 597 F. 2d 174, the United States Court of Appeal for the Ninth Circuit, held that, with respect to applicability of the supremacy clause, the Federal National Mortgage Association is a federal instrumentality and not a private entity, and that an exercise of state power over a mortgage interest of Fannie Mae constitutes an exercise of state power over property of the United States.

The City has not undertaken to determine whether any federal government entity has, or is likely to acquire, any interest (including any mortgage interest) in any property in the District, and therefore expresses no view concerning the likelihood that the risks discussed above will materialize while the Bonds are outstanding.

^{*} The supremacy clause of the United States Constitution provides "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."

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the District. The District is not located in a fault zone, but is proximate to the Newport-Inglewood Fault Zone and 5 other fault zones. All undocumented fill, compressible alluvial soils, and weathered bedrock considered unsuitable for engineered structures has been over-excavated and removed from the site. The Geotechnical Report prepared by Pacific Soils Engineering, Inc., states that the potential for liquefaction is considered as “very low.” However, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event.

In recent years portions of Southern California have experienced outbreaks of wildfires that have burned thousands of acres at a time and destroyed thousands of homes and structures. In October 2003 and, most recently, in October 2007, such wildfires occurred in Orange County and the adjacent counties of Los Angeles, Riverside, San Bernardino, and San Diego Counties. No such wildfires have recently occurred within the City. The risk of major wildfires in the Southern California region does exist.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Hazardous Substances

The presence of a hazardous substance on a parcel may result in a reduction in its value. 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.

The City has no knowledge of any hazardous substances being located on property within the District.

Parity Taxes and Special Assessments

Property within the District is subject to the lien of taxes and assessments imposed by public agencies and several overlapping districts also having jurisdiction over the land within the District. See “THE DISTRICT– Estimated Direct and Overlapping Indebtedness.” The City’s policy respecting the formation of community facilities districts provides that the total tax burden (i.e., the anticipated maximum annual community facilities district special tax, together with ad valorem property taxes, special assessments, special taxes for any overlapping community facilities district, and any other taxes, fees and charges payable from and

secured by the property) on any residential owner-occupied parcel in the community facilities district shall not exceed 2.0% of the estimated base sales price of such parcel upon completion of the public and private improvements relating thereto. See "THE DISTRICT – Estimated Direct and Overlapping Debt, Table 5" for estimated current effective tax rates within the District.

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

Neither the City nor the District has control over the ability of other entities and districts to issue indebtedness secured by 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 City, petition other public agencies to issue public indebtedness secured by taxes or assessments. Any such 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 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 at the maximum rate. The City has caused a notice of the Special Tax Lien to be recorded in the Office of the Recorder for the County of Orange on November 13, 2006, against each parcel within the District. 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 or 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.

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. Such a practice would decrease the cash flow available to the City to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the City, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in full or partial payment of any Special Taxes, the Agreement includes a covenant pursuant to which the City will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds unless the City shall have first obtained a certificate of an Independent Financial consultant that to accept such tender will not result in the city having insufficient Special Tax

Revenues in any Bond year to pay the principal and interest on the Bonds remaining outstanding following such tender.

Payment of the Special Tax is not a Personal Obligation of the Owners

A property owner of a taxable parcel within the District is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the City has no recourse against the owner.

Limitations on Remedies

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

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

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold for any particular price. The Underwriter will not be obligated to repurchase any of the Bonds. Although the City 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 Bondowners on a timely basis. See "LEGAL MATTERS – Continuing Disclosure." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Constitutional Amendment

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative"), Proposition 218, was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C ("Article XIII C") and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges."

Among other things, Section 3 of Article XIII C states that "... the initiative power will not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The City believes, however, that Article XIII C confers on the voters no greater power as to the reduction or repeal of the Special Taxes than the power reserved to the legislative body of the District (i.e., the City Council).

The Act imposes on the City Council a statutory duty to levy that amount of Special Taxes which is required for the payment of the principal of and interest on the Bonds, including any necessary replenishment of bond reserve funds and any amount required by federal law to be rebated to the United States for the Bonds (the "Minimum Levy"). In addition, the Act prohibits the City Council from adopting any resolution to reduce the rates of the Special Taxes or terminate the levy of the Special Taxes pledged to repay the Bonds unless it

determines that the reduction or termination of the Special Taxes would not interfere with the timely retirement of the Bonds. Accordingly, the City believes that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes below the amounts required for the Minimum Levy. However, the application of the Initiative will ultimately be determined by the courts. It is not possible to predict, with certainty, how the courts will interpret the initiative or the nature of any remedy that may be granted by the courts. See “Limitations on Remedies” below.

Further, no assurance can be given regarding the future levy of the Special Taxes in amounts greater than the level required for the Minimum Levy.

Future Initiatives

The Initiative was submitted to and approved by the voters of the State pursuant to the State’s constitutional initiative process. The Supreme Court of the State has held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption of taxes from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by the voters of the State. The adoption of any such initiative might place limitations on the ability of the State, the District and other local districts to increase revenues or increase appropriations or on the ability of the property owners to complete the remaining proposed development of the land in the District.

Loss of Tax Exemption

As discussed in “TAX MATTERS” below, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its covenants in the Agreement. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under the mandatory redemption section of the Agreement. See “Limitations on Remedies” below.

Additionally future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 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 Bond Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Prepayment Risk

The Prepayment of the Bonds may occur in whole or in part depending on the date, on any Interest Payment Date if the District exercises its right to prepay the Bonds pursuant to the provisions of the Agreement. In addition, early prepayment of the Bonds may occur in whole or in part on any Interest Payment Date from prepayments of Special Taxes. See “THE BONDS - Redemption - *Optional Redemption*” and “- *Mandatory Redemption from Special Tax Prepayments.*”

TAX MATTERS

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. Bond Counsel further notes, however, that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the City, the Underwriter and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements.

Should the interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 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 Bond Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a 2012 Bond, and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit (or by an audit of similar bonds).

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided the City continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix B.

LEGAL MATTERS

Continuing Disclosure

The City has covenanted in a Continuing Disclosure Agreement for the benefit of the Bondowners to provide annually certain financial information and operating data, and to provide notices of the occurrence of certain enumerated events, if material. The City has agreed in the Continuing Disclosure Agreement to file, or cause to be filed, to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org, an annual report and notices of certain material events. See "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT." The covenants of the City has been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). In 2008, the City filed its annual report for the City's 2006 Certificates of Participation (City Hall Acquisition) two days after the filing deadline. Other than this instance, the City has not failed to comply with any undertaking by the City under the Rule and is currently in compliance with all of its undertakings under the Rule.

A default by the City under its Continuing Disclosure Agreement will not, in itself, constitute a default under the Agreement. Koppel & Gruber Public Finance will act as the initial dissemination agent under the Continuing Disclosure Agreement. See "APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT."

Absence of Litigation

At the time of delivery of and payment for the Bonds, the City will deliver a certificate to the effect that there is no known action, suit, proceeding, inquiry or investigation at law or in equity before or by any court or regulatory agency against the City or the District affecting the existence of the City or the District or the title of their respective officers to office or seeking to restrain or to enjoin the issuance, sale, or delivery of the Bonds, the application of the proceeds thereof in accordance with the Agreement, or the collection or application of the Special Taxes to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Resolution of Issuance, the Agreement, or any other applicable agreements or any action of the City or the District or contemplated by any of said documents.

Legal Matters Incident to the Issuance of the Bonds

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Best Best & Krieger LLP, acting in its capacity as Bond Counsel. Certain legal matters related to the Bonds and the District will be passed upon for the City by Best Best & Krieger LLP, acting in its capacity as City Attorney to the City. Certain legal matters related to disclosure will be passed upon for the City by Best Best & Krieger LLP, acting in its capacity as Disclosure Counsel to the City. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is acting as counsel for the Underwriter. Payment of Bond Counsel's, Disclosure Counsel's, and Underwriter Counsel's fees and expenses is contingent upon the sale and issuance of the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Rating

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") is expected to assign its municipal bond rating of "___" to the Bonds.

In addition, Standard & Poor's has assigned its underlying municipal bond rating of "___" to the Bonds, independent of the delivery of the Policy with respect to the Bonds. Such ratings reflect only the views of Standard & Poor's and an explanation of the significance of such ratings may be obtained from Standard & Poor's. There is no assurance that such ratings will continue for any given period of time or that such ratings 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 ratings may have an adverse effect on the market price of the Bonds.

Underwriting

The Bonds are being purchased by the Underwriter for a price of \$_____ being equal to the initial principal amount of the Bonds of \$_____, less an Underwriter's discount of \$_____ and less an Original Issue Discount of \$_____. The Underwriter has committed to purchase all of the Bonds if any of such Bonds are purchased. The Bonds are being offered for sale to the public at the price set forth on the cover page of this Official Statement, which price may be changed by the Underwriter from time to time without notice. The Bonds may be offered and sold to dealers, including the Underwriter and dealers acquiring Bonds for their own account or an account managed by them, at prices lower than the public offering price.

Miscellaneous

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract or agreement between any of the City, the District or the Underwriter and the purchasers or the owners of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the City Council.

CITY OF ALISO VIEJO, for itself and on
behalf of COMMUNITY FACILITIES
DISTRICT NO. 2005-01 (GLENWOOD AT
ALISO VIEJO) OF THE CITY ALISO VIEJO

By: _____

APPENDIX A

SUMMARY OF THE AGREEMENT

The following is a summary of certain provisions of the Agreement not otherwise summarized in the text of this Official Statement. This summary is not intended to be definitive, and reference is made to the complete text of each of such documents for the complete terms thereof.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings ascribed to such terms in the body of this Official Statement.

In addition to the preceding definitions, the following terms defined in the Agreement have, except where specified otherwise, the following meanings.

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

“Administrative Expenses” means any or all of the following: the fees and expenses of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the City or its designee in carrying out its duties hereunder (including, but not limited to, the levying and collection of the Special Taxes, complying with the disclosure provisions of the Act, the Continuing Disclosure Certificate and the Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Bondowners and the Original Purchaser; the costs of the City or any designee of the City related to an appeal of the Special Tax) including the fees and expenses of its counsel, an allocable share of the salaries of City staff directly related thereto and a proportionate amount of City general administrative overhead related thereto, any amounts paid by the City from its general funds pursuant to Section 6.02 of the Agreement, the fees and expenses of the Financial Advisor, the fees and expenses of the Independent Financial Consultant, and all other costs and expenses of the City or the Fiscal Agent incurred in connection with the discharge of their respective duties hereunder and, in the case of the City, in any way related to the administration of the District.

“Administrative Expense Fund” means the fund by that name established by Section 3.04(A) of the Agreement.

“Agreement” means the Fiscal Agent Agreement dated as of January 1, 2014 by and between the City and the Fiscal Agent, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions the Agreement.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds scheduled to be paid.

“Auditor” means the Auditor-Controller of the County of Orange.

“Authorized Officer” means the City Manager, the Director of Financial Services/City Treasurer and any other officer or employee of the City authorized by the City Council or by an Authorized Officer to undertake the action referenced in the Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means any attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established by Section 4.02(A) of the Agreement.

“Bond Year” means the period beginning on the Closing Date and ending on September 1, 2014 and thereafter the period beginning on each September 2 and ending on the following September 1.

“Bonds” means, unless otherwise expressly provided, the Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo 2014 Special Tax Refunding Bonds, authorized by and at any time Outstanding pursuant to the Act and the Agreement.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of California or in any state in which the Fiscal Agent has its Principal Office are authorized or obligated by law or executive order to be closed.

“City” means the City of Aliso Viejo, California.

“City Council” means the City Council of the City.

“City Manager” means the City Manager of the City.

“Closing Date” means the date upon which there is an exchange of the Bonds for the proceeds representing payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, including but not limited to the preliminary official statement and official statement regarding the Bonds, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and the fees of its counsel, expenses incurred by the City in connection with the issuance of the Bonds, underwriter’s discount relating to the Bonds, including the fees of Bond Counsel and Disclosure Counsel, financial advisor’s fees, charges for authentication, transportation and safekeeping of the Bonds, rating agency fees, premium for a bond insurance policy, if any, securing payment of the Bonds, premium for a reserve surety, if any, for the Bonds and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established by Section 3.06(A) of the Agreement.

“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation, excluding amounts payable during such period which relate to principal of the Bonds which are scheduled to be retired and paid before the beginning of such period.

“Defeasance Securities” means, for purposes of Section 9.03(C) of the Agreement, the following:

- (i) Cash;
- (ii) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGs”);
- (iii) Direct obligations of the United States Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;
- (iv) Resolution Funding Corporation (REFCORP) obligations; provided that only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;
- (v) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s; provided, however, that if the issue is only rated by Standard & Poor’s (i.e., there is no Moody’s

rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or “AAA” rated pre-refunded municipal bonds; and

(vi) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:

- (a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Federal Financing Bank
- (c) General Services Administration
Participation certificates
- (d) United States Maritime Administration
Guaranteed Title XI financing
- (e) United States Department of Housing and Urban Development
Project notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

“Director of Fiscal Services/City Treasurer” means the Director of Fiscal Services/City Treasurer of the City.

“District” means Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo, County of Orange, State of California.

“Escrow Bank” means The Bank of New York Mellon Trust Company, N.A., acting as Escrow Bank pursuant to the Escrow Agreement.

“Escrow Agreement” means that Escrow Agreement Deposit and Trust Agreement dated as of January 1, 2014 by and between the District and the Escrow Bank relating to defeasance of the Prior Bonds.

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (i) Cash; and
- (ii) Direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TIGRS), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by, the United States of America.

“Financial Advisor” means an independent financial consulting firm appointed by the City to advise the City as to financial matters relating to the Bonds.

“Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., the Fiscal Agent appointed by the City, acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 7.01 of the Agreement.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Independent Financial Consultant” means a firm of certified public accountants, a financial consulting firm, a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the City or the Special Tax Consultant.

“Information Services” means the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as may be designated in a Certificate of the City delivered to the Fiscal Agent.

“Improvement Fund” means the fund by that name established by the Fiscal Agent pursuant to Section 3.06(A) of the Agreement.

“Interest Account” means the account by that name established by the Fiscal Agent in the Bond Fund pursuant to Section 4.02(A) of the Agreement.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2014.

“Investment Earnings” means all interest earned and any gains and losses on the investment of moneys in any fund or account created by the Agreement excluding interest earned and gains and losses on the investment of moneys in the Rebate Fund.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” shall mean Moody’s Investors Service, Inc., a national rating service with offices in New York, New York.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Ordinance” means any ordinance of the City or resolution of the City Council levying the Special Taxes.

“Original Purchaser” means the first purchaser of the Bonds from the City.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the provisions of Section 8.04 of the Agreement) all Bonds except:

(i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;

(ii) Bonds called for redemption which, for the reasons specified in Section 2.03(G) of the Agreement, are no longer entitled to any benefit under the Agreement other than the right to receive payment of the redemption price therefor;

(iii) Bonds paid or deemed to have been paid within the meaning of Section 9.03 of the Agreement; and

(iv) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City and authenticated by the Fiscal Agent pursuant to the Agreement or any Supplemental Agreement.

“Owner” means any person who shall be the registered owner of any Outstanding Bond.

“Parity Bonds” means bonds issued by the District pursuant to Section 2.12 of the Agreement, for the purpose of accomplishing the defeasance and refunding of a portion of the Outstanding Bonds pursuant to Section 9.03 of the Agreement, and that are secured by a pledge of and lien upon the Special Tax Revenues and funds pledged herein for the payment of the Bonds hereunder on a parity with the Outstanding Bonds.

“Permitted Investments” means:

- (i) Federal Securities; and
- (ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - (a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
 - (b) Federal Financing Bank
 - (c) Federal Housing Administration Debentures
 - (d) General Services Administration
Participation certificates
 - (e) Government National Mortgage Association (GNMA)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
 - (f) U.S. Maritime Administration
Guaranteed Title XI financing
 - (g) U.S. Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
U.S. Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds;
- (iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
 - (a) Federal Home Loan Bank System
Senior debt obligations
 - (b) Federal Home Loan Mortgage Corporation
Participation Certificates
Senior debt obligations
 - (c) Federal National Mortgage Association
Mortgage-backed securities and senior debt obligations

- (d) Student Loan Marketing Association
Senior debt obligations
- (e) Resolution Funding Corporation (REFCORP) obligations
- (f) Farm Credit System
Consolidated systemwide bonds and notes;

(iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAA-m-G," "AAA-m" or "AA-m" and, if rated by Moody's, rated "Aaa," "Aa1" or "Aa2" by Moody's, including funds for which the Fiscal Agent or any of its affiliates provides investment management services;

(v) Unsecured certificates of deposit and time deposits (having maturities of not more than 365 days) of any bank whose short-term obligations are rated on the date of purchase "A-1+" or better by S&P and "P-1" by Moody's, and certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral of the type that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated on the date of purchase "A-1" or better by S&P and Moody's;

(vi) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(vii) Investment agreements with domestic or foreign banks or corporations the long-term debt or claims paying ability of which or, in the case of a guaranteed corporation, the long-term debt, or, in the case of a monoline financial guaranty insurance company, the claims paying ability or financial strength, of the guarantor is rated in at least the double A category by Standard & Poor's and Moody's; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay debt service on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice;

(c) the investment agreement shall provide that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(d) the City and the Fiscal Agent receive the opinion of domestic counsel (which opinion shall be addressed to the City) that such investment agreement is legal, valid, binding upon and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the City;

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

(1) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider's books) to the City, the Fiscal Agent or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims, the market value of which collateral is maintained at levels and upon such conditions as would be

acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) assign the investment agreement and all of its obligations thereunder to a financial institution mutually acceptable to the provider and the City which is rated either in the first or second highest category by Standard & Poor's and Moody's; and

(2) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the City or the Fiscal Agent, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the invested funds, in either case with no penalty or premium to the City or the Fiscal Agent, as appropriate; and

(f) the investment agreement shall provide and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this shall mean the Holder of the Collateral is in possession of such collateral); and

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

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City or the Fiscal Agent, be accelerated and amounts invested and accrued but unpaid interest thereon shall be paid to the City or the Fiscal Agent, as appropriate; and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be paid to the City or the Fiscal Agent, as appropriate;

(viii) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's;

(ix) Bonds or notes issued by any state or municipality which are rated by Moody's or Standard & Poor's in one of the two highest rating categories assigned by them;

(x) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or better by Standard & Poor's;

(xi) Repurchase agreements which satisfy the following criteria:

(a) Repurchase agreements must be between the City or the Fiscal Agent and a dealer bank or securities firm which is:

(1) A primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by Standard & Poor's and Moody's, or

(2) A bank rated "A" or above by Standard & Poor's and Moody's;

(b) The written agreement must include the following:

(1) Securities which are acceptable for transfer are:

(A) direct obligations of the United States government, or

(B) obligations of federal agencies backed by the full faith and credit of the United States of America (or the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)),

(2) The collateral must be delivered to the City or the Fiscal Agent (if the Fiscal Agent is not supplying the collateral) or a third party acting as agent for the Fiscal Agent (if the Fiscal Agent is supplying the collateral) before or simultaneous with payment (perfection by possession of certificated securities),

(3) (A) The securities must be valued weekly, marked-to-market at current market price plus accrued interest, and

(B) The value of the collateral must be at least equal to one hundred four percent (104%) of the amount of money transferred by the Fiscal Agent to the dealer, bank or security firm under the agreement plus accrued interest. If the value of the securities held as collateral is reduced below one hundred four percent (104%) of the value of the amount of money transferred by the Fiscal Agent, then additional acceptable securities and/or cash must be provided as collateral to bring the value of the collateral to one hundred four percent (104%); provided, however, that if the securities used as collateral are those of FNMA or FHLMC, then the value of the collateral must be equal to one hundred five percent (105%) of the amount of money transferred by the Fiscal Agent; and

(c) A legal opinion must be delivered to the City and the Fiscal Agent that the repurchase agreement meets the requirements of California law with respect to the investment of public funds; and

(xii) the Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code.

“Principal Account” means the account by that name established by the Fiscal Agent pursuant to Section 4.02(A) of the Agreement.

“Principal Office” means the principal corporate trust office of the Fiscal Agent in Los Angeles, California or such other addresses may be specified in writing by the Fiscal Agent; provided, however, that for purposes of the transfer, registration, exchange, payment and surrender of Bonds “Principal Office” means the office or agency of the Fiscal Agent at which, at any time, its corporate trust agency business shall be conducted or such other office or address as may be specified in writing by the Fiscal Agent.

“Prior Administrative Expense Fund” means the Administrative Expense Fund established pursuant to the Prior Fiscal Agent Agreement.

“Prior Bonds” means the Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo 2007 Special Tax Bonds.

“Prior Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as the fiscal agent pursuant to the Prior Fiscal Agent Agreement.

“Prior Fiscal Agent Agreement” means the Fiscal Agent Agreement, dated as of November 1, 2007, by and between the City, for and on behalf of the District, and the Prior Fiscal Agent pertaining to the Prior Bonds.

“Prior Improvement Fund” means the Improvement Fund established pursuant to the Prior Fiscal Agent Agreement.

“Priority Administrative Expense Amount” means the amount of \$34,261 for Fiscal Year 2014 – 2015 escalating by 2% each Fiscal Year thereafter during the term of the Bonds.

“Proceeds,” when used with reference to the Bonds, means the aggregate principal amount of the Bonds, plus accrued interest and original issue premium, if any, less original issue discount, if any.

“Project” shall have the meaning given such term in the Prior Fiscal Agent Agreement.

“Rate and Method of Apportionment of Special Tax” means the Modified Rate and Method of Special Tax for the District approved by the qualified electors of the District at a special election held on November 1, 2006.

“Rebate Certificate” means the certificate delivered by the City upon the delivery of the Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate.

“Rebate Fund” means the fund by that name established by Section 6.02 of the Agreement.

“Record Date” means the fifteenth (15th) day of the month next preceding the applicable Interest Payment Date whether or not such day is a Business Day.

“Registration Books” means the registration books maintained by the Fiscal Agent pursuant to Section 2.08 of the Agreement.

“Regulations” means the temporary and permanent regulations of the United States Department of the Treasury promulgated under the Code.

“Reserve Fund” means the fund by that name established by Section 4.03(A) of the Agreement.

“Reserve Requirement” means, on any date in any Bond Year, the least of (i) ten percent (10%) of the proceeds of the sale of the Bonds, (ii) Maximum Annual Debt Service on the Bonds or (iii) 125 percent of average Annual Debt Service on the Bonds, as determined by the City.

“Resolution” means the resolution adopted by the City Council on January 8, 2014.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Special Taxes” or “Special Tax” means the special taxes levied by the City Council on parcels of taxable property within the District pursuant to the Act and the Agreement.

“Special Tax Consultant” means an engineer or financial consultant or other such person or firm with expertise in the apportionment and levy of special taxes in community facilities districts which is employed by the City to assist the City in levying the Special Taxes.

“Special Tax Fund” means the fund by that name established by Section 3.03(A) of the Agreement.

“Special Tax Prepayments” means amounts received by the City as prepayments of all or a portion of the Special Tax obligation of a parcel of property in the District.

“Special Tax Prepayments Account” means the account by that name established by the Fiscal Agent in the Bond Fund pursuant to Section 4.02(A) of the Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a national rating service with offices in New York, New York.

“Subordinate Bonds” means bonds issued by the District pursuant to Section 2.12 of the Agreement, for the purpose of accomplishing the defeasance and refunding of a portion of the Outstanding Bonds pursuant to Section 9.03 of the Agreement, and that are secured by a pledge of and lien upon the Special Tax Revenues and funds pledged herein for the payment of the Bonds hereunder subordinate to the Outstanding Bonds.

“Supplemental Agreement” means an agreement amending and supplementing the Agreement as permitted therein.

“Surplus Account” means the account by that name established in the Special Tax Fund by Section 3.03 (A) of the Agreement.

FUNDS AND ACCOUNTS

Special Tax Fund.

(A) Creation of Special Tax Fund. There is established by the Agreement, as a separate account to be held by the Fiscal Agent, the “Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo Special Tax Bonds Special Tax Fund” to the credit of which the City shall deposit, within ten (10) Business Days after receipt, the Special Tax Revenues received by the City. There is also established in the Special Tax Fund, as a separate account, to be held by the Fiscal Agent, the “Surplus Account” to the credit of which amounts shall be deposited as provided in Section 3.04(B) and in Section 4.02(B) of the Agreement. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments shall be transferred by the City immediately upon receipt to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to Section 4.02(A) of the Agreement.

(B) Disbursements. As soon as practicable after the receipt from the City or County of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent shall withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below, shall not exceed the Priority Administrative Expense Amount for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent shall, as soon as the amount on deposit in the Special Tax Fund is sufficient, deposit in the Reserve Fund the amount, if any, which the City shall direct in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund and deposited in the Reserve Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, on or before each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account and the Principal Account of the Bond Fund the amounts required for payment of interest on or interest on and principal of the Bonds, as provided in Section 4.02(B) of the Agreement.

Notwithstanding the preceding provisions of this subsection, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer's Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount in the Administrative Expense Fund which amount shall not exceed the difference between the amount of Special Tax Revenues then on deposit in the Special Tax Fund and the amounts required to be deposited in the Reserve Fund and the Bond Fund before making the required deposits to the Interest Account and the Principal Account of the Bond Fund, and the Fiscal Agent shall deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Interest Account and the Principal Account of the Bond Fund.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2014 the Fiscal Agent shall notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on March 1 and September 1 of the following calendar year.

On September 2 of each year, beginning on September 2, 2014, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the Principal Account of the Bond Fund (but not including, however, the amounts, if any, then on deposit in the Interest Account or the Special Tax Prepayments Account), as determined by the City, shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), shall be transferred from the Special Tax Fund to and deposited in the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund shall be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Bond Fund (other than such excluded amounts), shall not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(D) Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with Section 6.01 of the Agreement. Investment Earnings shall be retained in the Special Tax Fund to be used for the purposes of such accounts.

Administrative Expense Fund.

(A) Creation of Administrative Expense Fund. There is established by the Agreement, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo Special Tax Bonds Administrative Expense Fund” to the credit of which deposits shall be made as required by Section 3.02(b)(ii) of the Agreement. Moneys in the Administrative Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer’s Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense (or a Cost of Issuance) and the nature of such Administrative Expense (or Cost of Issuance).

Annually, not later than the last day of each Fiscal Year, the Fiscal Agent shall withdraw any amount then remaining in the Administrative Expense Fund that has not been allocated by an Officer’s Certificate received by the Fiscal Agent from the City to pay Administrative Expenses which are expected to be incurred in the succeeding Fiscal Year prior to the receipt by the City of Special Tax Revenues for such succeeding Fiscal Year and transfer such amount to the Surplus Account.

(C) Investment. Subject to the provisions of subsection (B) above, moneys in the Administrative Expense Fund shall be invested and deposited in accordance with Section 6.01 of the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Costs of Issuance Fund.

(A) Creation of Costs of Issuance Fund. There is established by the Agreement, as a separate account to be held by the Fiscal Agent, the “Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo Special Tax Bonds Costs of Issuance Fund” to the credit of which a deposit shall be made as required by Section 3.02(a)(ii) of the Agreement. Moneys in the Cost of Issuance Fund shall be held in trust by the Fiscal Agent and shall be disbursed as provided in subsection (B) below for the payment or reimbursement of Costs of Issuance.

(B) Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Fiscal Agent on the Closing Date. The Fiscal Agent shall pay all Costs of Issuance upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such requisition, or upon receipt of an Officer’s Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Fiscal Agent on the Closing Date. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of ninety (90) days from the Closing Date and shall then transfer and deposit any moneys remaining therein, including any Investment Earnings thereon, to the Special Tax Fund.

(C) Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with Section 6.01 of the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Cost of Issuance Fund to be used for the purposes of such fund.

Improvement Fund.

(A) Creation of Improvement Fund. There is established by the Agreement, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo 2014 Special Tax Refunding Bonds Improvement Fund” to the credit of which deposits shall be made as required by Section 3.02(b)(i) of the Agreement. Moneys in the Improvement Fund shall be held in trust by the Fiscal Agent for the benefit of the City, and shall be disbursed solely for the payment or reimbursement of costs of the design, acquisition and construction of the Project.

(B) Procedure for Disbursement. Disbursements from the Improvement Fund shall be made by the Fiscal Agent upon receipt of an Officer's Certificate which shall:

(i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to whom the disbursement is to be paid; and

(ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer's Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the Improvement Fund.

(C) Investment. Moneys in the Improvement Fund shall be invested and deposited in accordance with Section 6.01 of the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Improvement Fund to be used for the purposes of such fund.

(D) Closing of the Improvement Fund. Upon the filing of an Officer's Certificate stating that the construction and acquisition of the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, and further stating that moneys on deposit in the Improvement Fund are not needed to complete the Project or reimburse the cost thereof, the Fiscal Agent shall transfer the amount, if any, remaining in the Improvement Fund to the Bond Fund. Notwithstanding the proceeding provisions of this subsection, the Improvement Fund shall be closed if all amounts on deposit therein are disbursed pursuant to Subsection (B) above.

(E) Officer's Certificate. Upon receipt of an Officer's Certificate delivered pursuant to Section 3.06 of the Agreement, the Fiscal Agent is authorized to act thereon without further inquiry and shall not be responsible for the accuracy of the statements made in such Officer's Certificate or the application of the funds disbursed pursuant thereto, and shall be absolutely protected and incur no liability in relying on such Officer's Certificate.

SPECIAL TAX REVENUES; BOND FUND; RESERVE FUND

Pledge of Special Tax Revenues. The Bonds (including any Parity Bonds that may be issued) shall be secured by a first and prior pledge of and lien upon (which shall be perfected in the manner and to the extent herein provided) all of the Special Tax Revenues, except the Priority Administrative Expense Amount, all moneys on deposit in the Principal Account and the Interest Account of the Bond Fund, all moneys on deposit in the Surplus Account of the Special Tax Fund, the Special Tax Prepayments Account for the purpose of redeeming Bonds, and all moneys on deposit in the Reserve Fund. The Bonds (including any Parity Bonds that may be issued) shall be equally secured by a pledge of and lien upon the Special Tax Revenues and such moneys without priority for number, date of Bond, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds (including any Parity Bonds that may be issued) and any premium upon the redemption of any thereof shall be and is secured by a first and prior pledge of and lien upon the Special Tax Revenues and such moneys. The Special Tax Revenues and all moneys on deposit in such funds and accounts are dedicated in their entirety to the payment of the principal of the Bonds (including any Parity Bonds that may be issued), and interest and any premium on, the Bonds (including any Parity Bonds that may be issued), as provided herein and in the Act, until all of the Bonds (including any Parity Bonds that may be issued) have been paid and retired or until moneys or Defeasance Securities have been set aside irrevocably for that purpose in accordance with Section 9.03 of the Agreement. If Parity Bonds are issued for the purpose of discharging the indebtedness of a portion of the Outstanding Bonds pursuant to Section 9.03 of the Agreement, the provisions of Section 4.01 of the Agreement shall apply to such Parity Bonds to the same extent and with the same effect as they apply to the Bonds.

Bond Fund.

(A) Deposits. There is established by the Agreement, as a separate account to be held by the Fiscal Agent, the "Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo Special Tax Bonds Bond Fund" to the credit of which deposits shall be made as required by Section 3.03(C) and

Section 4.03 of the Agreement and any other provision of the Agreement or the Act. There are established in the Bond Fund, as separate accounts to be held by the Fiscal Agent, the "Interest Account" and the "Principal Account." There is also established in the Bond Fund, as a separate account to be held by the Fiscal Agent, the "Special Tax Prepayments Account" to the credit of which deposits shall be made as required by Section 3.03(A) of the Agreement and paragraph (2) of subsection (B) below. Moneys in the Bond Fund shall be held in trust by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements.

(1) Bond Fund Disbursements. Not later than five (5) Business Days before each Interest Payment Date, the Fiscal Agent shall transfer from the Special Tax Fund (including the Surplus Account) and deposit into the following respective accounts in the Bond Fund the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Special Tax Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Interest Account. Not later than five (5) Business Days before each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account the amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on the Bonds on such date. No deposit need be made into the Interest Account on any Interest Payment Date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Bonds on such date. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having become due and payable on the Outstanding Bonds, shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

(b) Principal Account. Not later than five (5) Business Days before each Interest Payment Date which occurs on September 1, the Fiscal Agent shall deposit in the Principal Account the amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds becoming due and payable on such Interest Payment Date pursuant to Section 2.02 of the Agreement, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premium) required to be redeemed on such date pursuant to any of the provisions of Section 2.03 of the Agreement. All moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Bonds upon the redemption thereof pursuant to Section 2.03 of the Agreement. All amounts on deposit in the Principal Account on the first day of any Bond Year (i.e., September 2), to the extent not required to pay the principal of any Outstanding Bonds then having become due and payable on the Outstanding Bonds shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

In the event that moneys on deposit in the Special Tax Fund, including moneys on deposit in the Surplus Account, will be insufficient on any Interest Payment Date for the Fiscal Agent to deposit the required amounts in the Interest Account and the Principal Account, as provided above, the Fiscal Agent shall deposit the available funds first to the Interest Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount of interest becoming due and payable on the Bonds on the Interest Payment Date, and shall then deposit the remaining available funds in the Special Tax Fund, including funds on deposit in the Surplus Account, to the Principal Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount, if any, of

principal becoming due and payable on the Bonds on the Interest Payment Date. If, after making such deposits to the Interest Account and the Principal Account, and after transferring moneys from the Reserve Fund to such accounts, as provided in Section 4.03(B) of the Agreement, the amount on deposit in the Principal Account is insufficient to pay the full amount of the principal of each of the Bonds which is to be redeemed on the Interest Payment Date, the Fiscal Agent shall make a prorated payment of the principal of each of such Bonds as specified in an Officer's Certificate provided to the Fiscal Agent.

On September 2 of each year, beginning on September 2, 2014 the amount, if any, on deposit in the Principal Account (but not including, however, the amounts, if any, on deposit in the Interest Account and the Special Tax Prepayments Account), as determined by the City, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Principal Account, together with the amounts then on deposit in the Special Tax Fund (including the Surplus Account), exceeds the maximum amount allowable pursuant to the preceding sentence, the excess shall be transferred by the Fiscal Agent, as directed in writing by the City (upon which the Fiscal Agent may conclusively rely), to the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement, and any such excess remaining thereafter shall be transferred by the Fiscal Agent to the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Principal Account, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(2) Special Tax Prepayments Account Deposits and Disbursements. Within ten (10) Business Days after receiving a Special Tax Prepayment, the City shall deliver the amount thereof to the Fiscal Agent, together with an Officer's Certificate notifying the Fiscal Agent that the amount being delivered is a Special Tax Prepayment which is to be deposited in the Special Tax Prepayments Account. Upon receiving a Special Tax Prepayment from the City and such an Officer's Certificate, the Fiscal Agent shall deposit the amount of the Special Tax Prepayment in the Special Tax Prepayments Account. Such an Officer's Certificate may be combined with the Officer's Certificate which the City is required to deliver to the Fiscal Agent pursuant to Section 4.03(F) of the Agreement. A portion of the moneys on deposit in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent, upon receipt of an Officer's Certificate directing such transfer and specifying the amount to be transferred (upon which the Fiscal Agent may conclusively rely), to the Principal Account on the next date for which notice of the redemption of the Bonds can timely be given under Section 2.03(F) of the Agreement and shall be used to redeem the Bonds on the redemption date selected in accordance with Section 2.03(B) of the Agreement. The portion of the moneys on deposit in the Special Tax Prepayments Account representing funded interest on a portion of the Outstanding Bonds shall be transferred by the Fiscal Agent, upon receipt of an Officer's Certificate directing such transfer and specifying the amount to be transferred (upon which the Fiscal Agent may conclusively rely), to the Interest Account on or before each Interest Payment Date prior to and including the Interest Payment Date on which the redemption of such Bonds will occur. Pending such transfers, the moneys on deposit in the Special Tax Prepayments Account shall be invested in Permitted Investments of such type and at such yield as Bond Counsel may determine is necessary to preserve the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Investment Earnings from such Permitted Investments shall be retained by the Fiscal Agent in the Special Tax Prepayments Account.

(C) Investment. Moneys in the Bond Fund, including all accounts therein, shall be invested and deposited in accordance with Section 6.01 of the Agreement. Investment Earnings shall be retained in the Bond Fund, except to the extent they are required to be deposited by the Fiscal Agent in the Rebate Fund in accordance with Section 6.02 of the Agreement. Investment earnings with respect to moneys in the Special Tax Prepayments Account shall be retained therein as specified in paragraph (2) of subsection (B) above.

Reserve Fund.

(A) Creation of Fund. There is established by the Agreement, as a separate account to be held by the Fiscal Agent, the “Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo Special Tax Bonds Reserve Fund” to the credit of which a deposit shall be made as required by paragraph (A) of Section 3.02 of the Agreement, which deposit is equal to the Reserve Requirement, and to which deposits shall be made as provided in Section 3.04(B) of the Agreement. Moneys in the Reserve Fund shall be held in trust by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of the principal of and interest and any premium on the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

(B) Use of Fund. Except as otherwise provided in this section, all amounts on deposit in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or, in accordance with the provisions of subsection (D) and subsection (G) below, for the purpose of redeeming Bonds.

(C) Transfer Due to Deficiency in Interest and Principal Accounts. Whenever transfer is made from the Reserve Fund to the Interest Account or the Principal Account due to a deficiency in either such account, the Fiscal Agent shall provide written notice thereof to the City.

(D) Transfer of Excess of Reserve Requirement. Whenever, on any September 2, the amount in the Reserve Fund, less Investment Earnings resulting from the investment of the funds therein which pursuant to Section 6.02 of the Agreement must be rebated to the United States, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess. The Fiscal Agent shall, subject to the requirements of Section 6.02 of the Agreement, transfer an amount from the Reserve Fund which will reduce the amount on deposit therein to an amount equal to the Reserve Requirement to the Interest Account and the Principal Account, in the priority specified in Section 4.02(B)(1)(a) and (b) of the Agreement, to be used for the payment of the interest on and principal of the Bonds on the next succeeding Interest Payment Date in accordance with Section 4.02 of the Agreement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund is equal to or exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), transfer the amount in the Reserve Fund to the Interest Account and the Principal Account to be applied, on the next succeeding Interest Payment Date, to the payment and redemption, in accordance with Section 2.03 and Section 4.02 of the Agreement, as applicable, of all of the Outstanding Bonds. In the event that the amount available to be so transferred from the Reserve Fund to the Interest Account and the Principal Account exceeds the amount required to pay and redeem the Outstanding Bonds, the excess shall be transferred to the City to be used for any lawful purpose of the City.

(F) Transfers on Payment of Special Tax Obligations. Whenever the City receives a Special Tax Prepayment for a lot or parcel of property within the District, the City shall by an Officer’s Certificate notify the Fiscal Agent thereof and of the amount by which the Reserve Fund (as transferred to the Authority Trustee) is to be reduced and which is transferable from the Reserve Fund to the Principal Account of the Bond Fund, which amount shall be specified in the Officer’s Certificate. Each such Officer’s Certificate shall be accompanied by a report of an Independent Financial Consultant or the Special Tax Consultant verifying the accuracy of the calculation of the amount to be transferred from the Reserve Fund to the Principal Account (“Verification”). Upon receipt of each such Officer’s Certificate and Verification, upon which the Fiscal Agent may conclusively rely, the Fiscal Agent shall at such time as the amount of such Special Tax Prepayment will be used to redeem Bonds, as provided in Section 4.02(B)(2) of the Agreement, transfer the amount specified in such Officer’s Certificate to the Principal Account and use such amount, together with the amount of such Special Tax Prepayment, to redeem Bonds, as provided in Section 4.02(B)(2) of the Agreement. Notwithstanding the preceding provisions of this subsection, no amount shall be transferred from the Reserve Fund to the Principal

Account if the amount on deposit in the Reserve Fund is, or as a result of such transfer would be, less than the Reserve Requirement.

(G) Investments. Moneys on deposit in the Reserve Fund shall be invested in Permitted Investments which do not have maturities extending beyond five (5) years; provided, however, if the Reserve Fund is invested in an investment agreement (as defined in clause (vii) of the definition of Permitted Investments in Section 1.03 of the Agreement) or a repurchase agreement (as defined in clause (xi) of such definition) such agreement may have a maturity longer than five (5) years if the Fiscal Agent is authorized by the provisions of such agreement to draw the full amount thereof, without penalty, if required for the purposes of the Reserve Fund. The City shall cause the Permitted Investments, other than such investment agreements, in which moneys on deposit in the Reserve Fund are invested to be valued at fair market value and marked-to-market at least once in each Fiscal Year.

COVENANTS OF THE CITY

Punctual Payment. The City will punctually pay or cause to be paid the principal of and interest and any premium on the Bonds when and as due in strict conformity with the terms of the Agreement and any Supplemental Agreement to the extent that the Special Tax Revenues are available therefor, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Agreement and all Supplemental Agreements and of the Bonds.

Special Obligation. The Bonds are special obligations of the City and the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund, including the Surplus Account.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Against Encumbrances. The City shall not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds, except as permitted by the Agreement.

Books and Accounts. The City shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Administrative Expense Fund. Such books of record and accounts shall at all times during business hours, upon reasonable notice, be subject to the inspection of the Fiscal Agent (which shall have no duty to inspect) and the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act, including the enactment of necessary Ordinances, so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of the payment or collection of delinquent Special Taxes.

On or within five (5) Business Days of May 1 of each year, the Fiscal Agent shall provide the City with a notice stating the amount then on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund. The receipt of such notice by the City or the failure of the Fiscal Agent to give such notice shall in no way affect the obligations of the City under the following two paragraphs. The Fiscal Agent shall have no liability if it does not provide such notice to the City. Upon receipt of such notice, the City shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current Fiscal Year.

The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Act by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) that the Bonds are Outstanding, such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the tax roll for the Fiscal Year then beginning. Upon the completion of the computation of the amounts of the levy of the Special Taxes, the City shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the tax roll. Notwithstanding the preceding provisions of this paragraph, the City Council may elect, as permitted by the Act, to collect the Special Taxes to be levied for any Fiscal Year directly from the owners of the parcels of taxable property upon which the Special Taxes are levied rather than by transmitting the Special Taxes to the Auditor for collection on the tax roll; provided that, in such event, the City shall otherwise comply with the provisions of Section 5.07 of the Agreement.

The City shall fix and levy the amount of Special Taxes within the District required for the payment of the principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund, and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied shall not, in any event, exceed the maximum amounts provided for in the Rate and Method of Apportionment of Special Tax.

The Special Taxes shall be payable and be collected (except in the event of judicial foreclosure proceedings pursuant to Section 5.11 of the Agreement) in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property.

The City will not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53356.1 and 53356.8 of the California Government Code in any manner which would materially and adversely affect the interests of the Bondowners and, in particular, will not permit the tender of Bonds in full or partial payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

Reduction of Maximum Special Tax Rates. The City covenants that, to the extent that it is legally permitted to avoid doing so, it will not initiate and conduct proceedings to reduce the maximum rates of Special Taxes which are authorized to be levied on taxable parcels of property within the District (the "Maximum Rates").

The City further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

Further Assurances. The City will adopt, make, execute and deliver any and all such further ordinances, resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to

facilitate the performance of the Agreement, and for better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Agreement.

Tax Covenants. The City covenants that:

(A) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Bonds, would have caused any of the Bonds to be “arbitrage bonds” within the meaning of Section 103(b) and Section 148 of the Code;

(B) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code of interest paid with respect to the Bonds;

(C) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would have caused any of the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(D) It will comply with the Rebate Certificate as a source of guidance for achieving compliance with the Code; and

(E) In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Bonds, it will comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The covenants of the City contained in this section shall survive the payment, redemption or defeasance of Bonds pursuant to Section 9.03 of the Agreement.

Covenant to Foreclose. The City covenants with and for the benefit of the Owners of the Bonds as follows: (i) it will order, and cause to be commenced, judicial foreclosure proceedings against properties in the District with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and (ii) it will commence judicial foreclosure proceedings against all properties in the District 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 ninety-five percent (95%) of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings; providing, however, the City shall not be required to order and cause judicial foreclosure proceedings to be commenced against delinquent properties as long as no deficiency in the Reserve Fund exists (or is projected to exist in order to meet the next upcoming debt service payment) and the City determines that the cost of pursuing such foreclosure is greater than the outstanding delinquency.

Prepayment of Special Taxes. The City shall cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Special Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that the total amount of the Maximum Special Tax for Debt Service and Facilities (as defined in the Rate and Method of Apportionment of Special Tax) that may be levied on Taxable Property both prior to and after the proposed prepayment is and will be at least 1.1 times the amount of Maximum Annual Debt Service on all Outstanding Bonds plus the Priority Administrative Expense Amount. For purposes of this section, Taxable Property means all parcels of property in the District that are not exempt from the levy of the Special Tax pursuant to the Act or the Rate and Method of Apportionment of Special Tax.

Calculation of Prepayments. The City will cause all Special Tax Prepayments to be calculated to include the amount of the premium on the Outstanding Bonds that will be redeemed with the Special Tax Prepayment. The City will not include in any calculation of the amount of any Special Tax Prepayment for any parcel of taxable property in the District a proportionate amount of the amount then on deposit in the Reserve Fund, if or

to the extent such a credit would cause the amount on deposit in the Reserve Fund following such prepayment to be less than the Reserve Requirement.

Continuing Disclosure. The City covenants that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate.

Accountability Measures. The City shall comply with the requirements of Section 53410 of the California Government Code with respect to the deposit and expenditure of the Proceeds of the sale of the Bonds and shall cause the appropriate officer of the City to file a report with the City Council no later than January 2, 2015, and annually thereafter, which shall contain the information required by Section 53411 of the California Government Code with respect to the expenditure of the Proceeds.

INVESTMENTS; DISPOSITION OF INVESTMENT PROCEEDS

Deposit and Investment of Moneys in Funds. Subject in all respects to the provisions of Section 6.02 of the Agreement, moneys in any fund or account created or established by the Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in paragraph (iv) of the definition of Permitted Investments in Section 1.03 of the Agreement. The Fiscal Agent shall not have any responsibility for determining the legality of any Permitted Investments. The Fiscal Agent shall have no obligation to pay additional interest or maximize investment income on any funds held by it. Neither the City nor the Owners of the Bonds shall have any claim of any kind against the Fiscal Agent in connection with investments properly made pursuant to this section. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of the Agreement for transfer of Investment Earnings in funds and accounts.

The Fiscal Agent and its affiliates may act as sponsor, advisor, depository, principal or agent in the holding, acquisition or disposition of any investment. The Fiscal Agent shall not incur any liability for losses arising from any investments made pursuant to this section. For purposes of determining the amount on deposit in any fund or account held hereunder, all Permitted Investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Subject in all respects to the provisions of Section 6.02 of the Agreement, investments in any and all funds and accounts may be commingled in a single fund for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent hereunder, provided that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Agreement.

The Fiscal Agent shall sell at the highest price reasonably obtainable (provided that the highest of any three bids received by the Fiscal Agent shall be deemed the highest price reasonably obtainable), or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from the acquisition or disposition of any such investment security in accordance herewith.

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

The Fiscal Agent may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

Rebate Fund; Rebate to the United States. There is created by the Agreement, to be held by the Fiscal Agent, as a separate account distinct from all other funds and accounts held by the Fiscal Agent under the Agreement, the Rebate Fund. The Fiscal Agent shall, in accordance with written directions received from an Authorized Officer, deposit into the Rebate Fund moneys transferred by the City to the Fiscal Agent pursuant to the Rebate Certificate or moneys transferred by the Fiscal Agent from the Bond Fund or the Reserve Fund. The Rebate Fund shall be held either uninvested or invested only in Federal Securities at the written direction of the City. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States, to the extent such payments are required by the Rebate Certificate. The Fiscal Agent shall, upon written request and direction of the City, make such payments to the United States.

The Fiscal Agent's sole responsibilities under this section are to follow the written instructions of the City pertaining hereto. The Fiscal Agent shall have no responsibility to independently make any calculation or determination or to review the City's calculations hereunder. The City shall be responsible for any fees and expenses incurred by the Fiscal Agent pursuant to this section.

The Fiscal Agent shall, upon written request and direction from the City, transfer to or upon the order of the City any moneys on deposit in the Rebate Fund in excess of the amount, if any, required to be maintained or held therein in accordance with the Rebate Certificate.

Liability of the City. The City shall not incur any responsibility in respect of the Bonds or the Agreement other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent herein or of any of the documents executed by the Fiscal Agent in connection with the Bonds.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Agreement. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations hereunder, or in the exercise of and of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be counsel to the City, 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 by it hereunder in good faith and in accordance therewith.

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

Employment of Agents by City. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

MODIFICATION OR AMENDMENT OF THE AGREEMENT

Amendments Permitted.

(A) The Agreement and the rights and obligations of the District and the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement with either (a) the affirmative vote of the Owners at a meeting of the Owners, or (b) the written consent, without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 8.04 of the Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City on behalf of the District to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation of any pledge of or lien upon the Special Tax Revenues, or the moneys on deposit in the Special Tax Fund, the Bond Fund or the Reserve Fund, superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Agreement), (iii) reduce the percentage of Bonds required for the amendment of the Agreement, or (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The City shall deliver to the Fiscal Agent an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of this section and the Fiscal Agent may conclusively rely on such opinion.

(B) The Agreement and the rights and obligations of the District and the City and the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(2) to make modifications not adversely affecting any Outstanding Bonds in any material respect;

(3) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of the Agreement, or in regard to questions arising under the Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Agreement, and which shall not adversely affect the rights of the Owners;

(4) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of moneys to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations; or

(5) to provide for the issuance of Parity Bonds to pay and discharge the indebtedness of a portion of the Outstanding Bonds (a "Partial Discharge") pursuant to Section 9.03 of the Agreement; provided that, following the issuance of such Parity Bonds, Maximum Annual Debt Service on the Bonds that will remain Outstanding following such Partial Discharge and such Parity Bonds will not be more in any subsequent Bond Year than Maximum Annual Debt Service on the Outstanding Bonds before the issuance of such Parity Bonds.

Owners' Meetings. The City may at any time call a meeting of the Owners. In such event, the City is authorized to fix the time and place of any such meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of the meeting.

Procedure for Amendment with Written Consent of Owners. The City and the Fiscal Agent may at any time enter into a Supplemental Agreement amending the provisions of the Bonds or of the Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by Section 8.01(a) of the Agreement, to take effect when and as provided in this section. A copy of the Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, postage prepaid, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of the Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section provided.

Such a Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 8.04 of the Agreement) and a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 9.05 of the Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice hereinafter in this section provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this section for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the papers required by this section 8.03 to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in Article VIII of the Agreement) upon the City, the District and the Owners of all Bonds then Outstanding at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60)-day period.

Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in Article VIII of the Agreement, and shall not be entitled to vote upon, consent to, or participate in any action provided for in Article VIII of the Agreement.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to Article VIII of the Agreement, the Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Agreement for any and all purposes.

Endorsement or Replacement of Bonds Issued After Amendments. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in Article VIII of the Agreement shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond

for that purpose at the Principal Office of the Fiscal Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for like Bonds then Outstanding, upon surrender of such Bonds.

Amendatory Endorsement of Bonds. The provisions of Article VIII of the Agreement shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City of Aliso Viejo
12 Journey
Aliso Viejo, CA 92656-5335

Re: \$34,485,000* Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo 2014 Special Tax Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo, County of Orange, State of California (the "District"), of \$34,485,000* aggregate principal amount of the Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo 2014 Special Tax Refunding Bonds (the "Bonds"). The Bonds are issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Act"), a resolution adopted by the City Council of the City of Aliso Viejo (the "City") on January 8, 2014 (the "Resolution"), and a Fiscal Agent Agreement, dated as of January 1, 2014 (the "Agreement"), between the City and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent").

We have examined the Act, the Resolution, the Agreement and certified copies of the proceedings taken for the issuance and sale of the Bonds. As to questions of fact which are material to our opinions, we have relied upon the representations of the City contained in the Agreement, and in certificates of its authorized officers which have been delivered to us for the purpose of supplying such facts, without having undertaken to verify the accuracy of any such representations by independent investigation.

Based upon such examination, we are of the opinion, as of the date hereof, that the proceedings referred to above have been taken in accordance with the laws and the Constitution of the State of California, and that the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchaser thereof, and the Agreement, having been duly authorized and executed by the proper officials, constitute the legally valid and binding obligations of the District enforceable in accordance with their terms subject to the qualifications specified below. Except where funds are otherwise available, as may be permitted by law, the Bonds are payable, as to both principal and interest, solely from certain special taxes to be levied and collected within the District and other funds available therefor held under the Agreement.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Agreement, the City has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the City with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

* Preliminary, subject to change.

We are further of the opinion that interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income; however, it should be noted, that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The opinions expressed herein may be affected by actions which may be taken (or not taken) or events which may occur (or not occur) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur or are not taken or do not occur.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX C
RATE AND METHOD OF APPORTIONMENT
OF SPECIAL TAX

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**CITY OF ALISO VIEJO
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO)**

MODIFIED RATE AND METHOD OF APPORTIONMENT

An Annual Special Tax shall be levied on all Taxable Property within the boundaries of City of Aliso Viejo Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) (“CFD No. 2005-01”) and collected each Fiscal Year commencing in Fiscal Year 2006-2007 according to the tax liability determined by the Council, through the application of this Modified Rate and Method of Apportionment of the Special Tax to the extent and in the manner herein provided.

1. Definitions

“**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, record of survey or other recorded document creating and describing such area of land. The square footage of an Assessor’s Parcel is equal to the Acreage of such parcel multiplied by 43,560 square feet.

“**Act**” means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

“**Administrative Expenses**” means the actual or reasonably estimated costs directly related to the administration of CFD No 2005-01 including, but not limited to the following: the costs of computing the Special Taxes; the costs of preparing the Annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City, 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 City, CFD No. 2005-01, or any designee thereof complying with arbitrage rebate requirements, including without limitation rebate liability costs and periodic rebate calculations; the costs to the City, CFD No. 2005-01, or any designee thereof complying with disclosure or reporting requirements of the City or CFD No. 2005-01 associated with applicable federal and State laws; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs to the City, CFD No. 2005-01, or any designee thereof related to an appeal of the Special Tax; and the City’s annual administration fees and third party expenses. Administrative Expenses shall also

include amounts estimated or advanced by the City or CFD No. 2005-01 for any other administrative purposes of CFD No. 2005-01, including attorney's fees and other costs related to commencing and pursuing any foreclosure of delinquent Special Taxes.

"Affordable Unit" means a residential unit classified as Land Use Class 1 that is either deed-restricted to maintain the affordability of the residential unit or, at the City's sole discretion, otherwise qualifies as affordable housing. A maximum of 43 Affordable Units will be classified as Exempt Property in accordance with Section 8 below. Any additional units (beyond 43) will be subject to the Special Tax and to mandatory prepayment of the Special Tax Obligation applicable to such Affordable Unit by the Property Owner prior to the issuance of a Certificate of Occupancy.

"Annual Special Tax" means any Special Tax levied within CFD No. 2005-01 pursuant to the Act and this Modified Rate and Method of Apportionment for any Fiscal Year.

"Annual Special Tax Requirement" means that amount required in any Fiscal Year to: (i) pay Debt Service; (ii) pay periodic costs on the Outstanding Bonds, including but not limited to, credit enhancement and rebate payments on the Outstanding Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) accumulate funds to pay directly for acquisition or construction of facilities, provided that the inclusion of such amount does not cause the Special Tax to be levied on Undeveloped Property, and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"Assessor" means the Assessor of the County.

"Assessor's Parcel" means a lot or parcel shown on an Assessor's Parcel map with an assigned Assessor's parcel number.

"Assigned Annual Special Tax" means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section 3 below.

"Backup Annual Special Tax" or **"Revised Backup Annual Special Tax"** means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section 3.A.iv below.

"Bonds" means any bonds or other indebtedness (as defined in the Act) of CFD No. 2005-01, whether in one or more series, secured by the levy of all or a portion of the Annual Special Taxes.

“Calendar Year” means the period commencing January 1 of any year and ending the following December 31.

“CFD No. 2005-01” means the City of Aliso Viejo Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo).

“CFD Administrator” means an official of the City, or designee thereof, responsible for determining the Annual Special Tax Requirement and for preparing the Annual Special Tax roll and calculating the Backup Annual Special Taxes.

“Certificate of Occupancy” means a permit issued by the City as a precondition to the occupancy of a residential dwelling unit.

“City” means the City of Aliso Viejo, California.

“Council” means the City Council of the City acting as the legislative body of the CFD under the Act.

“County” means the County of Orange, California.

“Debt Service” means for each Fiscal Year, the total amount of principal and interest payable on any Outstanding Bonds during the Calendar Year commencing on January 1 of such Fiscal Year.

“Developed Property” means for each Fiscal Year, all Taxable Property, exclusive of Property Owner Association Property or Public Property, for which a building permit for new construction or renovations was issued prior to March 1 of the previous Fiscal Year.

“Development Agreement” means the Development Agreement dated September 1, 2004 executed by the City, Aliso Viejo Golf Club Joint Venture and Aliso Viejo Commercial Property Joint Venture and Ordinance 2004-065 and Ordinance 2004-066 and the Assignment and Assumption of Development Agreement, Consent and Estoppel dated December 14, 2005 executed by the City, Aliso Viejo Golf Club Joint Venture, Aliso Viejo Commercial Property Joint Venture and Shea Homes Limited Partnership.

“Exempt Property” means Assessor’s Parcels designated as being exempt from Special Taxes pursuant to Section 8.

“Facilities” means facilities, fees or improvements authorized to be funded by CFD No. 2005-01.

“Final Subdivision” means a subdivision of property created by recordation of a final map or parcel map pursuant to the Subdivision Map Act (California Government

Code Section 66410 et seq.) or recordation of a condominium plan pursuant to California Civil Code 1352 or lot line adjustment that creates individual lots for which building permits may be issued without further subdivision.

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

“Golf Course Property” means any property within CFD No. 2005-01 that is used as a golf course, including but not limited to clubhouse, pro shop, parking, maintenance facilities and other golf-related amenities.

“Indenture” means the indenture, trust agreement, 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 and Table 2 under Section 3 below.

“Lot” means a parcel created by a Final Subdivision on which a single family residential home can be constructed.

“Maximum Annual Special Tax” means the greatest amount of Special Tax, determined in accordance with Section 3 below, which may be levied in any Fiscal Year on any Assessor’s Parcel of Taxable Property.

“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” mean all Bonds that are deemed to be outstanding under the Indenture.

“Property Owner” means a homebuilder or Golf Course Property developer.

“Property Owner Association Property” means any Assessor’s Parcel within the boundaries of CFD No. 2005-01 owned in fee by 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 Annual Special Tax is equal for all Assessor’s Parcels of Developed Property, or where the Backup Annual Special Tax is being levied, that the ratio of the actual Special Tax levy to the Maximum Annual Special Tax is equal for all Assessor’s Parcels upon which an Annual Backup Special Tax is being levied. For Undeveloped Property, "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Annual Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property. The term "Proportionately" may

similarly be applied to other categories of Taxable Property as listed in Section 4 below.

“Provisional Taxable Property” means all Assessor’s Parcels of Public Property, Property Owner Association Property or property that would otherwise be classified as Exempt Property pursuant to the provisions of Section 8, but cannot be classified as Exempt Property because to do so would reduce the Acreage of all Taxable Property below the required minimum Acreage as set forth in Section 8.

“Public Property” means any property within the boundaries of CFD No. 2005-01, which is owned by, or irrevocably offered for dedication to, the federal government, the State of California, the County, the City or any other public agency; provided however that any property owned by a public agency and leased 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. Public Property shall also include any property within CFD No. 2005-01 that is used or expected to be used for the Community Conference Center, Aquatics Center, the Public Park, the Public Parking Lot and Golf Drive as defined in the Development Agreement.

“Residential Floor Area” means all of the square footage of usable area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, or similar area. The determination of Residential Floor Area shall be made by reference to the livable space as identified on the building permit(s) issued for such Assessor’s Parcel or other data that may be furnished to the CFD Administrator by the Property Owner or City.

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

“Special Tax” means any special tax levied within CFD No. 2005-01 pursuant to the Act and this Modified Rate and Method of Apportionment.

“Special Tax Obligation” means the total obligation of an Assessor’s Parcel of Taxable Property to pay the Special Tax for the period described in Section 7 below.

“State” means the State of California.

“Taxable Property” means all of the Assessor's Parcels within the boundaries of CFD No. 2005-01, which are not exempt from the levy of the Special Tax pursuant to law or Section 8 below.

“Tract” means a group of Lots owned by the same Property Owner.

“Trustee” means the trustee or fiscal agent under the Indenture.

“Undeveloped Property” means, for each Fiscal Year, all Taxable Property within the boundaries of CFD No. 2005-01 not classified as Developed Property or Provisional Taxable Property.

“Zone 1” means all property located within CFD No. 2005-01 which is not located within Zone 2.

“Zone 2” means all property within CFD No. 2005-01 located within Assessor’s Parcel 623-431-38 (as designated on the County Assessor’s Roll for Fiscal Year 2006-2007).

2. Classification of Property within CFD No. 2005-01

Each Fiscal Year the CFD Administrator shall initially classify all property within the boundaries of CFD No. 2005-01 as Taxable Property or Exempt Property. Taxable Property within the boundaries of CFD No. 2005-01 shall be further classified as Developed Property, Provisional Taxable Property or Undeveloped Property, and all such Taxable Property shall be subject to the levy of Special Taxes in accordance with this Modified Rate and Method of Apportionment determined pursuant to Sections 3 and 4 below. Assessor’s Parcels of Developed Property shall be classified as Residential Property or Non-Residential Property. Assessor’s Parcels of Residential Property shall be further classified to its applicable Land Use Class based on its Residential Floor Area.

3. Maximum Annual Special Tax Rates

A. Developed Property

(i). Maximum Annual Special Tax

The Maximum Annual 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 Annual Special Tax or (ii) the amount derived by application of the Backup Annual Special Tax or the Revised Backup Annual Special Tax.

(ii). Assigned Annual Special Tax

(a) The Assigned Annual Special Tax for Residential Property is shown in Table 1 and Table 2 for the 2006-2007 Fiscal Year.

Table 1
Zone 1 Assigned Annual Special Tax Rates
Fiscal Year 2006-2007

Land Use Class	Description	Residential Floor Area	Fiscal Year 2006-2007 Assigned Annual Special Tax
1	Residential Property	Less than 1,901 Sq. Ft.	\$2,870 per unit
2	Residential Property	1,901 Sq. Ft. to 2,350 Sq. Ft.	\$4,150 per unit
3	Residential Property	2,351 Sq. Ft. to 2,800 Sq. Ft.	\$4,440 per unit
4	Residential Property	2,801 Sq. Ft. to 3,250 Sq. Ft.	\$5,115 per unit
5	Residential Property	3,251 Sq. Ft. to 3,700 Sq. Ft.	\$5,790 per unit
6	Residential Property	3,701 Sq. Ft. to 4,150 Sq. Ft.	\$5,880 per unit
7	Residential Property	4,151 Sq. Ft. to 4,600 Sq. Ft.	\$6,710 per unit
8	Residential Property	Greater than 4,600 Sq. Ft.	\$6,850 per unit

Table 2
Zone 2 Assigned Annual Special Tax Rates
Fiscal Year 2006-2007

Land Use Class	Description	Residential Floor Area	Fiscal Year 2006-2007 Assigned Annual Special Tax
1	Residential Property	Less than 1,901 Sq. Ft.	\$1,100 per unit
2	Residential Property	1,901 Sq. Ft. to 2,350 Sq. Ft.	\$1,200 per unit
3	Residential Property	2,351 Sq. Ft. to 2,800 Sq. Ft.	\$1,300 per unit
4	Residential Property	2,801 Sq. Ft. to 3,250 Sq. Ft.	\$2,000 per unit
5	Residential Property	3,251 Sq. Ft. to 3,700 Sq. Ft.	\$2,650 per unit
6	Residential Property	3,701 Sq. Ft. to 4,150 Sq. Ft.	\$2,800 per unit
7	Residential Property	4,151 Sq. Ft. to 4,600 Sq. Ft.	\$3,560 per unit
8	Residential Property	Greater than 4,600 Sq. Ft.	\$3,700 per unit

On July 1st of each Fiscal Year, commencing July 1, 2007, the Assigned Annual Special Tax for Residential Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

(b) The Maximum Annual Special Tax for Non-Residential Property shall be \$54,818 per Acre. On July 1st of each Fiscal Year, commencing July 1, 2007, the Maximum Annual Special Tax for Non-Residential Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

(iii). Multiple Land Use Classes

In some instances an Assessor's Parcel of Residential Property may contain more than one Land Use Class or an Assessor's Parcel may contain both Residential Property and Non-Residential Property. For Assessor's Parcels of Residential Property containing more than one Land Use Class, the Assigned Annual Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Annual Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Annual Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Annual 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 as Residential Property and Non-Residential Property 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.

(iv). Backup Annual Special Tax

Each Fiscal Year, each Assessor's Parcel of Residential Property shall be subject to a Backup Annual Special Tax. In each Fiscal Year, the Backup Annual Special Tax rate for Residential Property within a Final Subdivision shall be the rate per dwelling unit calculated according to the following formula:

$$B = \frac{Z \times A}{T}$$

The terms above have the following meanings:

B = Backup Annual Special Tax per Assessor's Parcel for the applicable Fiscal Year.

Z = Maximum Annual Special Tax for Undeveloped Property for the applicable Fiscal Year per Acre as shown in Section 3.B.

A = Acreage of Taxable Property, excluding Provisional Taxable Property, in such Final Subdivision that lies within the boundaries of CFD No. 2005-01, as

determined by the CFD Administrator pursuant to Section 8.

T = Total number of Assessor's Parcels of for which building permits for residential construction have or may be issued within the Final Subdivision that lie within the boundaries of CFD No. 2005-01.

If a Final Subdivision includes Assessor's Parcels for which building permits for both residential and non-residential construction may be issued, then the Backup Annual Special Tax for each Assessor's Parcel of Residential Property within such Final Subdivision area shall be computed by the CFD Administrator exclusive of the allocable portion of total Acreage of Taxable Property attributable to Assessor's Parcels for which building permits for non-residential construction may be issued.

Except as provided below (and except for the 2% annual increase), once a Final Subdivision is recorded, the Backup Annual Special Tax for each Assessor's Parcel within such Final Subdivision shall be fixed and shall not be recalculated. Notwithstanding the foregoing, if Assessor's Parcels of Residential Property are subsequently changed or modified by recordation of a subsequent Final Subdivision, then the Backup Special Tax as previously determined will be applied to the unchanged Lots and a Revised Backup Special Tax shall be recalculated to equal the amount of the Backup Special Tax that would have been generated if such change did not take place and applied to the Lots that are part of the changed or modified area based on the following formula:

$$R = \frac{B}{N}$$

The terms above have the following meanings:

R = Revised Backup Annual Special Tax per Assessor's Parcel that applies to the changed or modified lots in a Final Subdivision.

B = Backup Annual Special Tax applicable to the changed or modified lots in a Final Subdivision prior to the change or modification.

N = Total number of new Assessor's Parcels of Residential Property created through the change or modification of the Final Subdivision.

B. Undeveloped Property and Provisional Taxable Property.

The Maximum Annual Special Tax for Undeveloped Property and Provisional Taxable Property shall be \$62,910 per Acre for Fiscal Year 2006-2007. On July 1st of each Fiscal Year, commencing July 1, 2007, the Maximum Annual Special Tax for Undeveloped Property and Provisional Taxable Property shall increase by two-percent (2.0%) of the amount in effect in the prior Fiscal Year.

4. Method of Apportionment

For each Fiscal Year the Council shall determine the Annual Special Tax Requirement and levy the Special Tax, until the amount of Special Taxes equals the Annual Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property in an amount up to 100% of the applicable Assigned Annual Special Tax as necessary to satisfy the Annual Special Tax Requirement;

Second: If additional monies are needed to satisfy the Annual 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 up to 100% of the Maximum Annual Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Annual 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 Annual Special Tax is determined through the application of the Backup Annual Special Tax shall be increased in equal percentages from the Assigned Annual Special Tax up to 100% of the Maximum Annual Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Annual 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 Provisional Taxable Property at up to 100% of the Maximum Annual Special Tax for Provisional Taxable Property.

Notwithstanding the above, under no circumstances shall the Annual Special Tax levied against any Assessor's Parcel of Residential Property for which a Certificate of

Occupancy 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. 2005-01.

5. Collection of Special Taxes

Collection of the Special Tax shall be by the County in the same manner as ordinary ad valorem property taxes are collected and the Special Tax shall be subject to the same penalties and the same lien priority in the case of delinquency as ad valorem taxes; provided, however, that the Council may provide for (i) other means of collecting the Special Tax, including direct billings thereof to the property owners; and (ii) judicial foreclosure of delinquent Special Taxes.

6. Prepayment of Special Tax Obligation

The Special Tax Obligation for any Assessor's Parcel may be prepaid in full and permanently satisfied at anytime or prepaid in part prior to the first conveyance to the initial home buyer, as described herein, provided that a prepayment may be made only if at the time of the prepayment there are no delinquent Special Taxes with respect to such Assessor's Parcel and all other Assessor's Parcels which are under the same ownership and located within the CFD. An owner of an Assessor's Parcel intending to prepay the Special Tax Obligation shall provide the CFD Administrator with written notice of intent to prepay and any fee required to calculate the prepayment. Within sixty (60) days of receipt of such written notice and fee payment, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor's Parcel and the date through which the amount of such prepayment shall be valid.

A. Prepayment in Full

The "Prepayment" shall be an amount equal to the sum of (1) Principal, (2) Premium, (3) Defeasance, and (4) Fees, minus the Reserve Fund Credit, where the terms "Principal," "Premium," "Defeasance," "Fees," and "Reserve Fund Credit," have the following meanings:

"Principal" means the principal amount of Bonds to be redeemed from the proceeds of such Prepayment and equals the quotient derived by dividing (a) the applicable Maximum Annual Special Tax for the applicable Assessor's Parcel by (b) the projected aggregate Maximum Annual Special Taxes as determined by the CFD Administrator (and excluding from (b) any Special Taxes for Assessor's Parcels which have fully prepaid the Special Tax), and (c) multiplying the quotient by the principal amount of Outstanding Bonds as of the first interest and/or principal payment date following the then current Fiscal Year.

“Premium” means an amount equal to the Principal multiplied by the applicable redemption premium, if any, for the Bonds so redeemed with the proceeds of any such Prepayment.

“Defeasance” means an amount equal to the amount needed to pay interest on the Principal to be redeemed until the earliest redemption date as determined by the CFD Administrator for the Outstanding Bonds less the amount that is estimated by the CFD Administrator to be received from the reinvestment of the difference of the Prepayment and the Fees. Credit shall also be given for any Special Tax heretofore paid and which will not be needed for purposes of funding the then current Fiscal Year's Annual Special Tax Requirement.

“Unfunded Facilities” means an amount equal to the estimated cost of the unfunded public facilities allocable to the Assessor's Parcel for which the Prepayment is being calculated and is computed by multiplying the quotient calculated when determining Principal by \$34,790,000, less the estimated cost of any such facilities financed by previously issued Bonds. Unfunded Facilities shall equal zero following the issuance of all of the Bonds (i.e., all the authorized Bonds have been issued and/or CFD No. 2005-01 has covenanted not to issue any more Bonds, other than refunding bonds).

“Fees” equal the fees and expenses of CFD No. 2005-01 related to the Prepayment, including but not limited to City Administration Expenses, publishing fees, and bond call fees.

“Reserve Fund Credit” shall equal the lesser of (i) the expected reduction in the applicable reserve fund requirement (as defined in the Indenture), if any, following the redemption of Bonds from proceeds of the Prepayment or (ii) the amount derived by subtracting the new reserve fund requirement in effect after the redemption of Bonds from the balance in the reserve fund (as such term is defined in the Indenture) on the prepayment date, but in no event shall such amount be less than zero.

The sum of the amounts calculated in the preceding steps shall be paid to CFD No. 2005-01 and shall be used to pay and redeem Bonds in accordance with the Indenture and to pay the Fees. Upon receipt of such Prepayment by CFD No. 2005-01, the obligation to pay the Special Tax for such Assessor's Parcel shall be deemed to be permanently satisfied, the Special Tax shall not be levied thereafter on such Assessor's Parcel, and the CFD Administrator shall cause notice of cancellation of the Special Tax for such Assessor's Parcel to be recorded within 30 working days of receipt of the Prepayment.

Notwithstanding the foregoing, no prepayment shall be allowed unless the amount of Special Taxes that may be levied pursuant to this Modified Rate and Method of Apportionment after the proposed prepayment is at least the sum of (i) the estimated Administrative Expenses, based on the average annual Administrative Expenses to date, and (ii) one hundred ten percent (110%) of the maximum annual debt service for the Bonds, taking into account the Bonds to remain outstanding after such prepayment.

B. Prepayment in Part

The Special Tax on all Lots within a Tract of Developed Property or Undeveloped Property for which building permits have been issued may be partially prepaid prior to the conveyance of each Lot to the initial home buyer. The Prepayment shall be calculated as in Section 6.A.; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F.$$

These terms have the following meanings:

PP = the partial prepayment

P_E = the Prepayment calculated according to Section 6.A.

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

The Property Owner of any Tract who desires such prepayment shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Special Tax, (ii) the percentage by which the Special Tax shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if any. The CFD Administrator shall provide the Property Owner with a statement of the amount required for the partial prepayment of the Special Tax for each Lot within the Tract within sixty (60) days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor's Parcel or Lot that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section 6.A., and (ii) indicate in the records of CFD No. 2005-01 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel or Lot, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Annual Special Tax, shall continue to be levied on such Assessor's Parcel or Lot pursuant to Section 3.

7. Term of Annual Special Tax

The Annual Special Tax shall be levied for a period not to exceed 40 years commencing with Fiscal Year 2006-2007.

8. Exemptions

A maximum of 43 Affordable Units are exempt from the Special Tax. If, in any Fiscal Year, the CFD Administrator identifies a total number of Affordable Units within CFD No. 2005-01 greater than 43, the Property Owner of the additional Affordable Units will be required to prepay the Special Tax Obligation on such Affordable Units prior to issuance of a Certificate of Occupancy.

The CFD Administrator shall classify as Exempt Property (i) Assessor's Parcels of Public Property, (ii) Assessor's Parcels of Property Owner Association Property, (iii) Assessor's Parcels of Golf Course Property, (iv) Assessor's Parcels with public utility easement making impractical the utilization thereof for purposes other than those permitted in such easement, or (v) as determined reasonably by the CFD Administrator, provided that no such classification would reduce the sum of all Taxable Property in CFD No. 2005-01 to less than 42.32 acres of Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the sum of all Taxable Property in CFD No. 2005-01 to less than 42.32 acres of Acreage be classified as Provisional Taxable Property, and will continue to be subject to the CFD No. 2005-01 Special Taxes accordingly. Exempt Property status for the purpose of this paragraph will be assigned by the CFD Administrator in the chronological order in which property becomes eligible for classification as Exempt Property.

The Special Tax Obligation for any property which would be classified as Public Property upon its transfer or dedication to a public agency but which is classified as Provisional Taxable Property pursuant to the first paragraph of Section 8 above shall be prepaid in full by the seller pursuant to Section VII, prior to the transfer/dedication of such property to such public agency. Until the Special Tax Obligation for any such Public Property is prepaid, the property shall continue to be subject to the levy of the Special Tax as Provisional Taxable Property.

If the use of an Assessor's Parcel of Exempt Property changes so that such Assessor's Parcel is no longer classified as one of the uses set forth in the first paragraph of Section 8 above that would make such Assessor's Parcel eligible to be classified as Exempt Property, such Assessor's Parcel shall cease to be classified as Exempt Property and shall be deemed to be Taxable Property.

9. Appeals

Any landowner or resident who pays the Annual Special Tax and believes that the amount of the Annual Special Tax levied on his or her Assessor's Parcel is in error shall first consult with the CFD Administrator regarding such error. If following such consultation, the CFD Administrator determines that an error has occurred, the CFD Administrator may amend the amount of the Annual Special Tax levied on such Assessor's Parcel. If following such consultation and action, if any by the CFD Administrator, the landowner or resident believes such error still exists, such person may file a written notice with the City Clerk of the City appealing the amount of the Annual Special Tax levied on such Assessor's Parcel. Upon the receipt of any such notice, the City Clerk shall forward a copy of such notice to the City Manager or designee, who may establish such procedures as deemed necessary to undertake the review of any such appeal. The City Manager or designee thereof shall interpret this Modified Rate and Method of Apportionment and make determinations relative to the administration of the Annual Special Tax and any landowner or resident appeals as herein specified. The decision of the City Manager or designee shall be final and binding as to all persons.

APPENDIX D

THE ECONOMY OF THE CITY OF ALISO VIEJO

The following information relating to the City of Aliso Viejo and the County of Orange, California is supplied solely for the purposes of information. Neither the City nor the County is obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds. The Bonds are payable solely from the sources described in the Official Statement.

THE CITY OF ALISO VIEJO

General and Economic Information on the City

The City of Aliso Viejo, which has a population of approximately 49,000 and is approximately 7 square miles, is located in South Orange County. The City is located in Southern California, approximately 45 miles from downtown Los Angeles, 70 miles north of downtown San Diego, and 4 miles northeast of the Pacific Ocean. Neighboring communities include Laguna Hills, Laguna Niguel, Laguna Beach, and Newport Beach.

The City of Aliso Viejo is a general law city and was incorporated on July 1, 2001. The City has a Council-Member form of government. The City Council appoints the City Manager, who is responsible for the day-to-day administration of City business and the coordination of all City departments. The City Council is comprised of five members elected bi-annually to four-year alternating terms. The City Council annually elects a Mayor from its members. The City employs a staff of 16 full-time employees.

City Management

The administration of the City is under the direction of John Whitman, the Interim City Manager and Gina Tharani, the Director of Financial Services/City Treasurer.

John Whitman, Interim City Manager. John Whitman is the City's Interim City Manager. He previously served as City Engineer and Director of Public Works for the City of Aliso Viejo since its incorporation in 2001. Mr. Whitman brings a vast range of experience to Aliso Viejo, as he has worked in both the public sector and private sector throughout the country. Mr. Whitman holds a Masters Degree in Civil Engineering from West Virginia University and is the immediate past chairman of the South Orange County Regional Chamber of Commerce.

Gina Tharani, Financial Services Director/City Treasurer. Ms. Tharani is the City's first permanent financial employee. Ms. Tharani is a finance professional with over twenty-five years of experience. She has focused her attention on building a Finance Department which provides a variety of financial services for the City. She has established policies, procedures, and implemented a financial system to facilitate creation of the City's budget and provide for enhanced reporting capabilities, winning the CAFR award for the City every year since incorporation. Ms. Tharani is a member of Government Finance Officers Association, California Society of Municipal Finance Officers, California Municipal Treasurers Association and Association of Public Treasurers for USA and Canada. She is actively involved with CMTA at the national level and has served as their President this past year. Ms. Tharani holds a MBA and Bachelor of Science degree with majors in finance and auditing from Mumbai, India and a certificate in Governmental and Non-Profit Accounting from University of California, Riverside.

General Demographic Information

Table D-1 provides population, income levels and employment information for Fiscal Year 2000/01 through 2011-12.

Table D-1
CITY OF ALISO VIEJO
Demographic and Economic Statistics
Last Ten Fiscal Years
as of June 30, 2012

Fiscal Year	<u>Population</u>	<u>Total Income</u>	<u>Per Capita Income</u>	<u>Total Employment</u>	<u>Employment Growth Rate</u>	<u>Unemployment Rate</u>
2003	44,846	\$1,668,540,276	\$37,206	26,700	N/A	2.50%
2004	44,854	1,710,327,874	38,131	27,200	1.87%	2.20
2005	44,924	1,755,584,996	39,079	27,500	1.10	1.90
2006	45,037	1,791,256,601	39,773	28,000	1.82	1.80
2007	45,249	1,857,154,707	41,043	28,000	0.00	2.00
2008	45,683	2,052,308,775	44,925	27,700	-1.07	2.70
2009	45,634	1,977,868,828	43,342	26,100	-5.78	4.80
2010	47,823	2,059,354,026	43,062	25,600	-1.92	4.90
2011	48,988	2,002,825,392	40,884	26,400	3.13	4.60
2012	49,477	2,100,001,788	42,444	27,600	4.55	3.00

Sources: California Department of Finance, California Employment Development Department, HDL Coren & Cone.

The following table lists the principal sales tax producers within the City for the last five fiscal years including Fiscal Year ending 2013.

Table D-2
CITY OF ALISO VIEJO
Principal Sales Tax Producers by Category
June 30, 2013

	<u>2008</u> <u>(In Millions)</u>	<u>2009</u> <u>(In Millions)</u>	<u>2010</u> <u>(In Millions)</u>	<u>2011</u> <u>(In Millions)</u>	<u>2012</u> <u>(In Millions)</u>
Food Stores	\$ 14,123	\$ 15,410	\$ 17,587	\$ 18,691	\$ 20,634
Eating and Drinking Places	50,085	50,403	51,145	55,837	61,619
Services Stations	56,432	47,600	55,095	60,825	70,041
Other Retail Stores	195,539	179,852	185,348	176,772	173,983
All Other Outlets	<u>101,807</u>	<u>93,039</u>	<u>92,902</u>	<u>114,288</u>	<u>129,678</u>
Total	\$417,986	\$386,304	\$402,077	\$426,413	\$455,955

Source: HDL Coren & Cone, State Board of Equalization.

The following table lists the principal property tax payers in the City.

**Table D-3
CITY OF ALISO VIEJO
Principal Property Tax Payers
June 30, 2013**

<u>Taxpayer</u>	<u>Primary Use</u>	<u>2013</u>		<u>2004</u>	
		<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Sequoia Equities-Alize	Residential	\$140,259,368	1.84%	\$102,898,889	1.97%
City Lights Aliso Viejo LLC	Residential	108,162,157	1.42	79,757,544	1.53
Moritz Associates LLC	Residential	107,738,690	1.42	93,105,136	1.78
Barcelona LLC	Residential	92,827,869	1.22	80,260,585	1.54
Rreef American Reit II Corporation	Commercial	92,442,600	1.22	N/A	N/A
Qlogic Corporation	Commercial	75,954,534	1.00	52,821,782	1.01
Aliso Viejo Office Partners Holding Co.	Commercial	75,804,000	1.00	N/A	N/A
OC SD Holdings LLC	Residential	65,969,917	0.87	N/A	N/A
Aliso-Holly Oaks Partners LLC	Residential	61,667,126	0.81	45,185,810	0.87
Aliso Viejo RP-V1 LLC	Commercial	<u>58,463,037</u>	<u>0.77</u>	<u>N/A</u>	<u>N/A</u>
Top Ten Totals		\$879,289,298	11.56%	\$454,029,746	8.70%

Source: HDL Coren & Cone, Orange County Assessor.

Employment

The following table presents the annual average distribution of persons in various wage and salary employment categories for Orange County Primary Metropolitan Statistical Area (“PMSA”) for 2008 through October, 2013.

**TABLE D-4
ORANGE COUNTY
ANNUAL AVERAGE EMPLOYMENT COMPARISON**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013⁽¹⁾</u>
Civilian Labor Force	1,618,400	1,589,600	1,592,500	1,600,100	1,618,700	1,629,000
Employment	1,533,100	1,448,800	1,441,500	1,460,100	1,496,000	1,533,800
Unemployment	85,300	140,700	151,000	140,000	122,700	95,100
Unemployment Rate	5.3%	8.9%	9.5%	8.8%	7.6%	5.8%
<u>Wage and Salary Employment:</u>						
Agriculture	4,600	3,800	3,700	3,200	2,700	2,700
Natural Resources and Mining	600	500	500	500	500	500
Construction	91,200	74,200	68,000	69,200	71,300	83,300
Manufacturing	174,100	154,800	150,400	154,200	157,800	161,300
Wholesale Trade	86,700	79,400	77,600	77,000	76,700	80,000
Retail Trade	155,600	142,300	140,100	140,900	142,200	141,800
Transportation, Warehousing and Utilities	29,300	27,800	26,700	27,500	27,700	27,600
Utilities	4,000	3,900	4,000	3,900	4,000	4,200
Information	30,100	27,300	24,800	23,800	24,200	24,400
Finance and Insurance	76,100	70,600	69,400	71,100	73,600	78,500
Real Estate and Rental and Leasing	37,000	34,500	34,100	33,600	34,400	35,900
Professional and Business Services	266,600	240,200	243,500	245,700	255,900	266,600
Professional, Scientific & Technical Services	116,100	107,300	106,100	108,600	112,700	115,100
Educational and Health Services	150,700	152,100	155,500	158,800	163,400	169,300
Health Care & Social Assistance	127,100	128,800	131,900	134,500	138,700	143,700
Leisure and Hospitality	176,400	169,100	168,600	174,000	180,500	189,300
Other Services	46,500	42,600	42,200	43,200	44,300	45,000
Government	160,800	156,600	152,300	149,300	147,800	144,500
Federal Government	11,700	11,700	12,400	11,600	11,100	11,100
State Government	28,000	27,700	27,300	28,000	28,600	29,700
Local Government	<u>121,000</u>	<u>117,300</u>	<u>112,600</u>	<u>109,700</u>	<u>108,100</u>	<u>103,700</u>
Total All Industries	1,486,200	1,375,900	1,357,400	1,371,900	1,403,000	1,856,500

Source: State of California Employment Development Department.

⁽¹⁾ As of October 2013.

The following table shows certain employment information with respect to the County of Orange, the State of California, and the United States for Calendar Years 2008 through 2013.

Table D-5
ORANGE COUNTY
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Calendar Years 2008 through 2013, as of January 1 of Each Year

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
2008				
Orange County ⁽¹⁾	1,618,400	1,533,100	85,300	5.3%
California ⁽²⁾	18,207,300	16,893,900	1,313,500	7.2%
United States ⁽³⁾	154,655,000	143,369,000	11,286,000	7.3%
2009				
Orange County	1,589,600	1,448,800	140,700	8.9%
California	18,215,700	16,151,100	2,064,600	11.3%
United States	153,120,000	138,025,000	15,095,000	9.9%
2010				
Orange County	1,592,500	1,441,500	151,000	9.5%
California	18,330,500	16,063,500	2,267,000	12.4%
United States	153,649,000	139,295,000	14,354,000	9.3%
2011				
Orange County	1,600,100	1,460,100	140,000	8.8%
California	18,404,500	16,237,300	2,167,200	11.8%
United States	153,945,000	140,896,000	13,049,000	8.5%
2012				
Orange County	1,618,700	1,496,000	122,700	7.6%
California	18,494,900	16,560,300	1,934,500	10.5%
United States	155,511,000	143,305,000	12,206,000	7.8%
2013 ⁽¹⁾				
Orange County	1,629,000	1,533,800	95,100	5.8%
California	18,605,900	16,994,000	1,611,900	8.7%
United States	155,559,000	143,568,000	11,720,000	7.3%

Source: California Employment Development Department; U.S. Department of Labor Bureau of Labor Statistics.

⁽¹⁾ As of October 2013.

Education

The City is included within the boundaries of the San Juan Capistrano Unified School District, Saddleback Valley Unified School District, and Laguna Beach Unified School District, which also serves the surrounding cities of Dana Point, Laguna Niguel, Mission Viejo, Rancho Santa Margarita, San Juan Capistrano and San Clemente, as well as portions of the unincorporated county. This City has in its boundaries five elementary schools, one middle school and one high school. There are three private schools. Higher education is available within the City at SOKA University of America.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

CITY OF ALISO VIEJO CONTINUING DISCLOSURE AGREEMENT

§ _____
**COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO) OF THE CITY OF ALISO VIEJO
COUNTY OF ORANGE,
STATE OF CALIFORNIA,
2014 SPECIAL TAX BONDS**

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of February 12, 2014, is executed and delivered by the City of Aliso Viejo (the “Issuer”) for and on behalf of Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo (the “District”) and Koppel & Gruber Public Finance, as Disclosure Dissemination Agent (the “Disclosure Dissemination Agent”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

SECTION 1. Definitions.

Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with EMMA.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the Issuer for the prior Fiscal Year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to EMMA under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Representative” means the City Manager, the senior member of the Issuer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Disclosure Dissemination Agent” means Koppel & Gruber Public Finance, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“EMMA” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

“Failure to File Event” means the Issuer’s failure to file the Annual Report on or before the Annual Filing Date, respectively.

“Fiscal Agent” means the institution identified as such in the document under which the Bonds were issued.

“Holder” means any person (a) having 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) treated as the owner of any Bonds for federal income tax purposes.

“Information” means the Annual Financial Information, the Audited Financial Statements (if any) the Notice Event notices, and the Voluntary Reports.

“Notice Event” means an event listed in Sections 4(a) of this Disclosure Agreement.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed on Appendix A.

“Voluntary Report” means the information provided to the Disclosure Dissemination Agent by the Issuer pursuant to Section 7.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Fiscal Agent, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to EMMA not later than 9 months after the end of each Fiscal Year of the Issuer, commencing with the Fiscal Year ending June 30, 2014. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in Section 4(a)(12) has occurred and to immediately send a notice to EMMA.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to EMMA.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Fiscal Agent, for filing with EMMA.

(e) The Disclosure Dissemination Agent shall:

(i) upon receipt, promptly file each Annual Report received under Section 2(a) with EMMA;

(ii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with EMMA; and

(iii) provide the Issuer evidence of the filings of each of the above when made.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Fiscal Agent (if any) and EMMA, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

SECTION 3. Content and Form of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including the following:

(i) the principal amount of the Bonds outstanding as of September 2 of each year;

(ii) the balance in each fund under the Fiscal Agent Agreement as of the September 2 preceding the filing of the Annual Report, including the Reserve Fund and a statement of the Reserve Requirement;

(iii) updates to Tables 1 and 7 of the Official Statement using the current year's assessed value for Taxable Property in the District and the current year's actual Special Tax levy;

(iv) any changes to the Rates and Method of Apportionment of Special Tax approved or submitted to the electors for approval prior to the filing of the Annual Report;

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

(vi) information regarding the percentage of delinquency, if any, in the collection of Special Taxes levied on property in the District for the Fiscal Year preceding the Annual Filing Date in the form of Table 3 to the Official Statement;

(vii) any information not already included under (i) through (vi) 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; and

(viii) (i) the total amount of the Special Taxes levied in the District in the current Fiscal Year to pay debt service on the Outstanding Bonds; (ii) the total amount of such Special Taxes that was

collected for the first installment of the current fiscal year; and (iii) the total amount of interest due on the Outstanding Bonds on the succeeding September 1 Interest Payment Date.

In addition to any of the information expressly required to be provided under paragraph (a) of this Section, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (vi), in the light of the circumstances under which they were made, not misleading.

(b) Audited Financial Statements prepared in accordance with GAAP or alternate accounting principles as described in the Official Statement will be included in the Annual Report. Unaudited financial statements, prepared in accordance with generally accepted accounting principles (“GAAP”) or alternate accounting principles as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with each of EMMA or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

SECTION 4. Reporting of Notice Events.

(a) Pursuant to the provisions of this Section 4, the Issuer shall give, or cause to be given, notice to the Dissemination Agent of the occurrence of any of the following events with respect to the Bonds, not more than eight (8) Business Days after the following events, and the Dissemination Agent shall provide notice to EMMA not more than ten (10) Business Days after the following events:

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, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
6. defeasances;
7. tender offers;
8. bankruptcy, insolvency, receivership or similar proceedings; and
9. ratings changes.

(b) Pursuant to the provisions of this Section 4, the Issuer shall give, or cause to be given, notice to the Dissemination Agent, of the occurrence of any of the following events with respect to the Bonds, if material:

1. mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;
2. appointment of a successor or additional fiscal agent or the change of the name of a fiscal agent;

3. non payment related defaults;
4. modifications to the rights of Bondholders;
5. notices of prepayment; and
6. release, substitution or sale of property securing repayment of the Bonds.

The occurrence of any the events described in Section 4(a) and (b) above constitutes a Notice Event. The Issuer notify the Disclosure Dissemination Agent promptly, and in no event later than eight (8) Business Days, in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (d). Such notice shall be accompanied with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information to EMMA, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information to EMMA.

(c) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (d), together with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information to EMMA, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information to EMMA.

(d) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a), (b) or (c)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with EMMA, and, with respect to Notice Events set forth in subsection (a), such Notice Events shall be filed with EMMA no later than ten (10) Business Days from the date of such event.

SECTION 5. CUSIP Numbers.

Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and Voluntary Reports filed pursuant to Section 4(a), the Issuer shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the failure of the Disclosure Dissemination Agent to so advise the Issuer shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Reports.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file information with EMMA, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a "Voluntary Report").

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

SECTION 8. Termination of Reporting Obligation.

The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent.

The Issuer has appointed Koppel & Gruber Public Finance as Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Fiscal Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of Koppel & Gruber Public Finance's services as Disclosure Dissemination Agent, whether by notice of the Issuer or Koppel & Gruber Public Finance, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default.

In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Issuer at all times.

THE ISSUER AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, with prior written notice to the Issuer, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver.

Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel qualified in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Fiscal Agent of the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law.

This Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 15. Counterparts.

This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

KOPPEL & GRUBER PUBLIC FINANCE, as Disclosure
Dissemination Agent

By: _____

Name: _____

Title: _____

CITY OF ALISO VIEJO, ON BEHALF OF AND FOR
COMMUNITY FACILITIES DISTRICT NO. 2005-01
(GLENWOOD AT ALISO VIEJO), as Issuer

By: _____

Name: _____

Its: _____

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo

Obligated Person(s) Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo

Name of Bond Issue: \$ _____ Community Facilities District No. 2005-01 (Glenwood at Aliso Viejo) of the City of Aliso Viejo 2014 Special Tax Refunding Bonds

Date of Issuance: _____, 2014

Date of Official Statement _____, 2014

CUSIP Number:

CUSIP Number:

CUSIP Number:

CUSIP Number:

CUSIP Number:

CUSIP Number:

CUSIP Number:

CUSIP Number:

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APPENDIX F

DTC AND THE BOOK ENTRY 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 Bonds, payment of principal, premium, if any, accreted value and interest on the 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 to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each 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 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 3.6 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.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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, Bonds will be printed and delivered to DTC.

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272