

**RATINGS: S&P Underlying: "BBB"**  
**BAM Insurance: S&P: "AA"**  
 See the caption "RATINGS"

**NEW ISSUE – BOOK-ENTRY ONLY**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption "TAX EXEMPTION" with respect to other tax consequences relating to the Bonds.*

**\$13,345,000\***

**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
 OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
 SPECIAL TAX REFUNDING BONDS, SERIES 2015**

**Dated: Delivery Date****Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2015 (the "Bonds") are being issued by Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the "District"): (i) to refund the District's outstanding Special Tax Bonds Series 2006 (the "Refunded Bonds"); (ii) to purchase a municipal bond insurance policy to guarantee payment of principal of and interest on the Bonds; (iii) to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Account in satisfaction of the Reserve Requirement; and (iv) to pay costs of issuance of the Bonds. See the caption "THE REFUNDING PLAN." The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to that certain Bond Indenture (the "Indenture"), dated as of June 1, 2015, by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent").

The Bonds are special obligations of the District payable from Net Taxes (as defined herein) derived from a certain annual Special Tax (as defined herein) to be levied on taxable land within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the City Council of the City of Escondido (the "City") and the qualified electors within the District. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and Appendix A.

The Bonds are issuable in fully-registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2016. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners of the Bonds. See the caption "THE BONDS—General Provisions."

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

The Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from Special Tax prepayments as set forth under the caption "THE BONDS—Redemption of the Bonds."

**Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.**

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

**The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.**



**MATURITY SCHEDULE**  
 (See Inside Cover Page)

*The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the City and the District by Jeffrey Epp, Esquire, City Attorney. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California, as counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery on or about June 3, 2015.*

Dated: May \_\_, 2015

**STIFEL**

\* 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 them 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 the 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.

**\$13,345,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**SPECIAL TAX REFUNDING BONDS, SERIES 2015**

**MATURITY SCHEDULE**

**BASE CUSIP<sup>®†</sup>** \_\_\_\_\_

<i><b>Maturity Date (September 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP<sup>®†</sup></b></i>
	\$	%	%		

\$ \_\_\_\_\_ % Term Bonds maturing September 1, 2036, Yield \_\_\_\_%, Price \_\_\_\_ CUSIP<sup>®†</sup> \_\_\_\_

\* Preliminary; subject to change.

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**CITY OF ESCONDIDO  
COUNTY OF SAN DIEGO  
STATE OF CALIFORNIA**

**MAYOR AND MEMBERS OF THE CITY COUNCIL**

Sam Abed, Mayor  
Michael Morasco, Deputy Mayor  
Ed Gallo, Member  
John Masson, Member  
Olga Diaz, Member

**STAFF**

Clay Phillips, City Manager  
Jeffrey Epp, Esq., City Attorney  
Sheryl Bennett, Director of Administrative Services  
Kenneth Hugins, City Treasurer  
Ed Domingue, Director of Public Works  
Diane Halverson, City Clerk

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

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

**Special Tax Consultant**

Special District Financing & Administration LLC  
Escondido, California

**Fiscal Agent/Escrow Agent**

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

**Verification Agent**

Causey Demgen & Moore P.C.  
Denver, Colorado

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the District or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “THE COMMUNITY FACILITIES 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. Except as set forth in the Continuing Disclosure Agreement, a form of which is attached hereto as Appendix E, neither the District nor the City plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

A wide variety of other information, including financial information concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE” and in Appendix G—SPECIMEN MUNICIPAL BOND INSURANCE POLICY.



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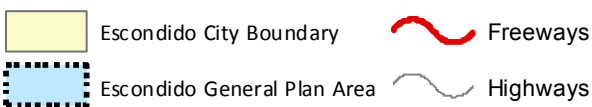
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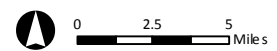
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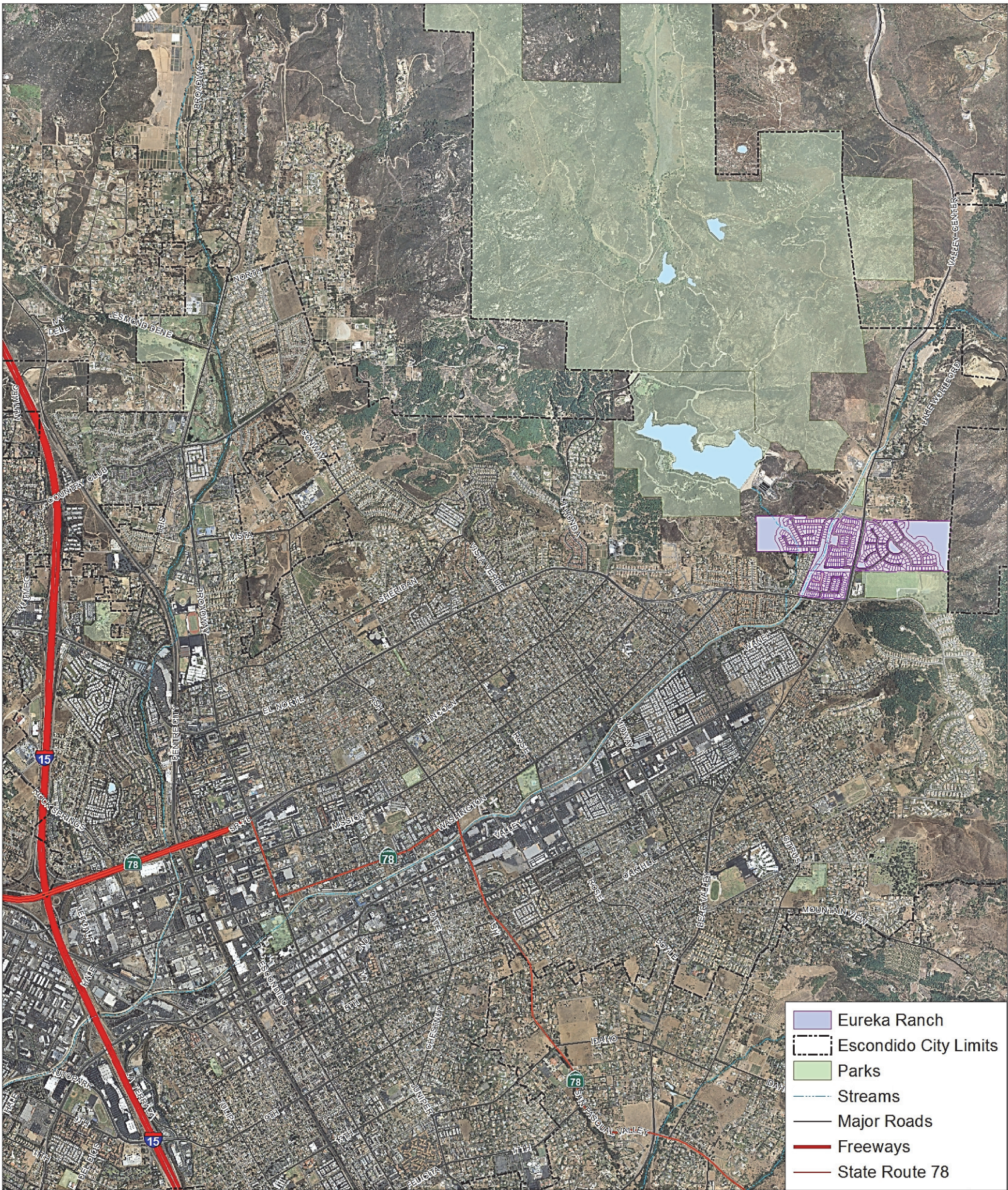
Source: SanGIS, City of Escondido



# Escondido General Plan

## Regional Location





Source: SanGIS 2015, Escondido GIS 2015



# Eureka Ranch



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**\$13,345,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**SPECIAL TAX REFUNDING BONDS, SERIES 2015**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the “District”) of its Special Tax Refunding Bonds, Series 2015 in the aggregate principal amount of \$13,345,000\* (the “Bonds”). The proceeds of the Bonds, together with certain existing funds of the District, will be used to defease all of the District’s outstanding Special Tax Bonds Series 2006, originally issued in the aggregate principal amount of \$18,080,000 and now outstanding in the principal amount of \$15,810,000 (the “Refunded Bonds”). A portion of the proceeds of the Bonds will be used to purchase a municipal bond insurance policy to guarantee payment of principal of and interest on the Bonds, to purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Account in satisfaction of the Reserve Requirement and to pay Costs of Issuance of the Bonds. See the captions “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and that certain Bond Indenture dated, as of June 1, 2015 (the “Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined herein) and all moneys in the Bond Fund as described in the Indenture.

The Bonds are being sold pursuant to a purchase contract between Stifel, Nicolaus & Company, Incorporated, as underwriter (the “Underwriter”) and the District. For more complete information, see the captions “THE BONDS—General Provisions” and “UNDERWRITING.”

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined have the meanings set forth in Appendix D.

**The District**

The District was formed on September 20, 2006. The Bonds are being issued pursuant to the Act and the Indenture. The Act was enacted by the State of California (the “State”) Legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such community facilities 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 community facilities district to repay such indebtedness.

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\* Preliminary; subject to change.

Pursuant to the Act, on August 16, 2006, the City Council (the “City Council”) of the City of Escondido, California (the “City”), adopted Resolution No. 2006-164(R), stating its intention to form the District and to authorize the levy of a special tax on the taxable property within the District, and Resolution No. 2006-165, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed \$20,000,000 within the District for the purpose of financing the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District. Subsequent to a noticed public hearing on September 20, 2006, the City Council adopted Resolution No. 2006-227 (the “Resolution of Formation”), which established the District and authorized the levy of a special tax within the District, and Resolution No. 2006-228 (the “Resolution to Incur Bonded Indebtedness”), which determined the necessity to incur bonded indebtedness in an amount not to exceed \$20,000,000 within the District and called an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit.

On September 20, 2006, an election was held within the District in which the landowners eligible to vote approved the proposition authorizing the issuance of bonds in an amount not to exceed \$20,000,000 to finance the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District, the levying of the special taxes and the appropriations limit of \$20,000,000. On September 27, 2006, the City Council, acting as the legislative body of the District, adopted Resolution and Ordinance No. 2006-32 (the “Ordinance”) which provides for the levy of the Special Tax in accordance with the rate and method of apportionment (the “Rate and Method”). On October 3, 2006, a Notice of Special Tax Lien was recorded in the office of the Recorder of the County of San Diego (the “County”) for the District.

### **Description of the Development**

The District consists of approximately 167 gross acres. The District is located within the City, approximately 5 miles east of its downtown area, approximately 33 miles northeast of downtown San Diego and approximately 45 miles north of the United States/Mexico international border.

The District is fully built out and consists of 340 detached single family homes. The property within the District was developed by Eureka Escondido, LLC, a Delaware limited liability company (the “Developer”), of which Lennar Homes of California, Inc., a California corporation, was the managing member and Centex Homes, a Nevada general partnership, was a member. The Developer commenced construction of the first units in May 2006. The last building permit in the District was issued on June 29, 2010 and the Developer has conveyed all of the units in the District to individual homeowners. All of the 340 completed homes, including two homes the owners of which prepaid their Special Tax obligation in June and December 2008, respectively, are within Final Tract Map No. 839 recorded on February 15, 2006. As a result of the Special Tax prepayments described in the previous sentence, as well as the partial prepayment of the Special Tax obligation by another parcel owner in August 2008, Refunded Bonds were called for redemption in September 2008 and March 2009 in the aggregate principal amount of \$65,000 and \$85,000, respectively. See the caption “THE COMMUNITY FACILITIES DISTRICT.” Currently, 338 parcels consisting of developed homes are subject to the Special Tax.

### **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 a “plan,” “expect,” “estimate,” “project,” “budget” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “THE COMMUNITY FACILITIES 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 DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

### **Sources of Payment for the Bonds**

As used in this Official Statement, the term “Special Tax” is that tax which has been authorized to be levied against certain land within the District pursuant to the Act and in accordance with the Rate and Method. See Appendix A. Under the Indenture, the principal of and interest on the Bonds are payable from Net Taxes and all amounts in the Bond Fund (including the Debt Service Account, the Redemption Account and the Reserve Account) established under the Indenture. The “Net Taxes” are the Special Tax proceeds, including all net proceeds from foreclosure sales for delinquent Special Taxes, penalties and interest received by the District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure remaining after payment of the Administrative Expense Requirement (as defined in Appendix D). The Bonds are secured only by the Net Taxes collected within the District and amounts held in the Bond Fund from time to time. Amounts in the Surplus Fund are not pledged to the repayment of the Bonds.

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

The Net Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in certain funds under the Indenture, including amounts held in the Reserve Account of the Bond Fund. The District has covenanted for the benefit of the owners of the Bonds that it will, under certain circumstances described herein, commence, or cause to be commenced, and diligently prosecute to judgment (unless the delinquency is brought current) judicial foreclosure proceedings against assessor’s parcels with delinquent Special Taxes. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.”

The District has covenanted not to issue additional indebtedness secured by the Special Taxes on a parity with the lien of the Bonds, except for bonds issued for the purpose of refunding all or a portion of outstanding Bonds or parity bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied on the property within the District. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

Properties in the District are substantially developed and the District has not conducted an appraisal of any of the properties in the District. Based on the assessed values set forth herein (without regard to pending appeals) and the Fiscal Year 2014-15 Special Tax levy, parcels having an assessed value-to-lien ratio of less

than 5 to 1 comprise less than 1% of the Fiscal Year 2014-15 Special Tax levy; in the aggregate, Taxable Property in the District has an estimated assessed value-to-lien ratio of 8.87\* to 1. See the captions “THE COMMUNITY FACILITIES DISTRICT—Estimated Value-to-Lien Ratios” and “SPECIAL RISK FACTORS.”

### **Description of the Bonds**

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

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See Appendix F.

The Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from Special Tax prepayments as described herein. For a more complete descriptions of the Bonds and the basic documentation pursuant to which the Bonds are being sold and delivered, see the caption “THE BONDS” and Appendix D.

### **Tax Exemption**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. See the caption “TAX EXEMPTION.”

Set forth in Appendix B is the form of the opinion of Bond Counsel that is expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incidental to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see the caption “TAX EXEMPTION.”

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

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Fiscal Agent under the Indenture and as Escrow Agent under the Escrow Agreement (as defined herein). Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed on for the City and the District by Jeffrey Epp, Esquire, City Attorney. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California. Certain legal matters will be passed on for Build America Mutual Assurance Company, the bond insurer (“BAM”), by

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\* Preliminary; subject to change.

its counsel. Other professional services have been performed by Special District Financing & Administration LLC, Escondido, California, as Special Tax Consultant and Causey Demgen & Moore P.C., as Verification Agent.

For information concerning whether certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see the caption “FINANCIAL INTERESTS.”

### **Continuing Disclosure**

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system available on the Internet at <http://emma.msrb.org> (“EMMA”) certain annual financial information and operating data. The District will further agree to provide notice of certain listed events. These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). See the caption “CONTINUING DISCLOSURE” and Appendix E for a description of the specific nature of the annual reports to be filed by the District and notices of listed events to be provided by the District. Except as set forth under the caption “CONTINUING DISCLOSURE,” within the last five years, the District and the City have not failed to timely comply with their respective prior continuing disclosure obligations under Rule 15c2-12(b)(5) in all material respects.

### **Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Indenture, issue Parity Bonds, solely for the purpose of refunding all or a portion of the Bonds, payable from the Net Taxes and other amounts deposited in the Bond Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds.”

### **Bondowners’ Risks**

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors.

### **Municipal Bond Insurance and Debt Service Reserve Policy**

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy (the “Policy”) to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company (“BAM”). See the caption “BOND INSURANCE.” BAM will also issue a reserve account municipal bond insurance policy (the “Reserve Policy”) for the Bonds as described herein. See the captions “BOND INSURANCE,” “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Debt Service Reserve Insurance Policy” and Appendix G.

### **Reserve Account**

A Reserve Account for the Bonds is established pursuant to the Indenture in an amount equal to the Reserve Requirement. BAM has committed to issue, concurrently with the delivery of the Bonds, a municipal bond debt service reserve insurance policy in the initial principal amount of \$1,056,000\* for deposit in the

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\* Preliminary; subject to change.

Reserve Account in satisfaction of the Reserve Requirement. The District is not obligated: (i) to make any additional deposits into the Reserve Account in the event that BAM defaults on its obligation to make payments under the municipal bond debt service reserve insurance policy; or (ii) to replace the municipal bond debt service reserve insurance policy in the event of a rating downgrade of BAM. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Debt Service Reserve Insurance Policy.”

## Other Information

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

Brief descriptions of the Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the Constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein have the meanings set forth in the Indenture.

Copies of the Indenture and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the City at 201 North Broadway, Escondido, California 92025, Attention: Director of Administrative Services.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Bond proceeds, together with prior funds on hand.

### Sources of Funds<sup>(1)</sup>

Principal Amount of Bonds	\$
Plus/Less Net Original Issue Discount/Premium	
Less Underwriter’s Discount	
Prior Funds <sup>(2)</sup>	
<b>Total Sources</b>	<b>\$</b>

### Uses of Funds<sup>(1)</sup>

Escrow Fund to Redeem Refunded Bonds	\$
Municipal Bond Insurance Policy Premium	
Debt Service Reserve Insurance Policy Premium	
Costs of Issuance Fund <sup>(3)</sup>	
<b>Total Uses</b>	<b>\$</b>

<sup>(1)</sup> Rounded to the nearest dollar.

<sup>(2)</sup> Includes moneys held in funds and accounts established in connection with the Refunded Bonds.

<sup>(3)</sup> Includes premium for Policy and Reserve Policy, certain fees of Bond Counsel, Disclosure Counsel, the Special Tax Consultant, the Verification Agent, the rating agency and the Fiscal Agent, printing costs and other miscellaneous costs of issuance.

## THE REFUNDING PLAN

### General

The Refunded Bonds, which are currently outstanding in the aggregate principal amount of \$15,810,000, were issued by the District pursuant to the Bond Indenture, dated as of October 1, 2006 (the “2006 Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A.,

formerly known as The Bank of New York Trust Company, N.A., as fiscal agent (the “2006 Fiscal Agent”). The District plans to apply a portion of the proceeds of the Bonds, together with certain moneys on deposit with the 2006 Fiscal Agent, to pay the scheduled principal of and interest on the Refunded Bonds on September 1, 2015, and to pay all principal of and interest on the Refunded Bonds maturing after September 1, 2015 pursuant to an early call for redemption on September 1, 2015 (the “Redemption Date”) at a redemption price equal to 101% of the principal amount thereof plus accrued interest to the Redemption Date (the “Redemption Price”).

Under an Escrow Agreement (2006 Bonds), dated as of June 1, 2015 (the “Escrow Agreement”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”) and as 2006 Fiscal Agent, the District will deliver a portion of the proceeds of the Bonds to the Escrow Agent for deposit in the escrow fund (the “Escrow Fund”) established under the Escrow Agreement on or about the date of issuance of the Bonds. In addition, the 2006 Fiscal Agent will transfer certain moneys held in connection with the Refunded Bonds to the Escrow Agent for deposit in the Escrow Fund on or about the date of issuance of the Bonds. The Escrow Agent will invest a portion of the amounts so deposited in the Escrow Fund in Investment Securities (as described in the Escrow Agreement). From the maturing principal of the Investment Securities and related investment income and any uninvested moneys on deposit in the Escrow Fund, the 2006 Fiscal Agent will pay the principal of and interest on the Refunded Bonds maturing on September 1, 2015 and the Redemption Price of the Refunded Bonds maturing after September 1, 2015 on the Redemption Date in accordance with the Escrow Agreement.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Causey Demgen & Moore P.C. (the “Verification Agent”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the Refunded Bonds will be defeased pursuant to the provisions of the 2006 Indenture as of the date of issuance of the Bonds and the owners of the Refunded Bonds will have no rights thereunder except to be paid the principal and interest due on the Refunded Bonds from amounts in the Escrow Fund.

The portion of the proceeds of the Bonds deposited with the 2006 Fiscal Agent is pledged solely to the payment of the Refunded Bonds and will not be available for the payments of principal of and interest on the Bonds.

## **Verification**

Upon the issuance of the Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the adequacy of the maturing principal of and interest on the Investment Securities to pay when due the principal of and interest on the Refunded Bonds maturing on September 1, 2015 and the Redemption Price of the Refunded Bonds maturing after September 1, 2015 on the Redemption Date; and (b) the computations of yield of the Bonds and the Investment Securities which support Bond Counsel’s opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

## **THE BONDS**

### **Authority for Issuance**

The Bonds in the aggregate principal amount of \$13,345,000<sup>\*</sup> are authorized to be issued by the District under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California.

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<sup>\*</sup> Preliminary; subject to change.

## **Purpose of the Bonds**

The Bonds are being issued to provide funds: (i) to defease the Refunded Bonds; (ii) to purchase the Policy to guarantee payment of principal of and interest on the Bonds; (iii) to purchase the Reserve Policy for deposit in the Reserve Account in satisfaction of the Reserve Requirement; and (iv) to pay Costs of Issuance of the Bonds. See the captions “ESTIMATED SOURCES AND USES OF FUNDS,” “THE REFUNDING PLAN,” “BOND INSURANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Debt Service Reserve Insurance Policy.”

## **General Provisions**

The Bonds will be issued and delivered in the aggregate principal amount of \$13,345,000\* initially in book-entry form and will bear interest at the rates per annum and mature on the dates set forth on the inside front cover page hereof. Individual purchases of the Bonds may be made in principal amounts of \$5,000 and any integral multiple thereof. The Bonds will be dated the Delivery Date and interest will be payable thereon on March 1 and September 1 of each year, commencing March 1, 2016 (each, an “Interest Payment Date”). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication of such Bond, unless: (i) the date of authentication is an Interest Payment Date, in which event it will bear interest from such date; (ii) the date of authentication is after the 15th day of the month, regardless of whether such day is a Business Day, but prior to the immediately succeeding Interest Payment Date (a “Record Date”), in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the Delivery Date; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment, or if no interest has been paid or made available for payment on such Bond, interest on such Bond will be payable from the Delivery Date.

The Bonds are issued as fully-registered bonds and will be registered in the name of Cede & Co., as Nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. See Appendix F.

## **Debt Service Schedule**

The Special Tax is to be levied against the property within the District and collected according to the Rate and Method. See Appendix A. The District has covenanted to levy the Special Tax each year in time to have it placed on the secured property tax roll of the County. Actual collections of the Special Tax will depend on the Special Tax delinquencies.

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**COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
DEBT SERVICE SCHEDULE**

<i><b>Period Ending September 1</b></i>	<i><b>Principal</b></i>	<i><b>Interest</b></i>	<i><b>Total Debt Service</b></i>
2016	\$	\$	\$
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
Totals	\$	\$	\$

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Source: Underwriter.

**Redemption of the Bonds**

***Optional Redemption.***\* The Bonds with stated maturities on or after September 1, 2026, are subject to redemption prior to their respective stated maturities, as a whole or in part on any date as directed by the District and by lot within each maturity in integral multiples of \$5,000, on or after September 1, 2025, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

***Mandatory Sinking Fund Redemption.*** The Bonds with stated maturities on September 1, 20\_\_ are subject to mandatory sinking fund redemption in part (by lot) on each September 1 on and after September 1, 20\_\_, in integral multiples of \$5,000 at a redemption price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

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\* Preliminary; subject to change.

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__*	

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\* Final Maturity.

***Special Mandatory Redemption from Special Tax Prepayments.*** The Bonds are subject to special mandatory redemption as a whole, or in part, on a pro rata basis among maturities, on any Interest Payment Date, and will be redeemed by the Fiscal Agent, from Special Tax Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account (see the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Reserve Account”), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Any Interest Payment Date through March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

In the event of a partial optional redemption or special mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds will be reduced, as nearly as practicable, on a pro rata basis and the District will provide the Fiscal Agent with a revised Sinking Fund Payment schedule.

***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 a Certificate of an Authorized Representative requesting such purchase, at a public or private sale as and when, and at such prices (including brokerage and other charges) as such Certificate of an Authorized Representative may provide, but in no event will Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if the Bonds were to be redeemed in accordance with the Indenture.

### **Selection of Bonds for Redemption**

If less than all of the Outstanding Bonds are to be redeemed, the Fiscal Agent will select Bonds pro rata among maturities and by lot within a maturity. The portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent will treat each such Bond as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. The Fiscal Agent will promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption.

### **Notice of Redemption**

When Bonds are to be called for redemption under the Indenture, and in the case of an optional redemption or special mandatory redemption, if the Fiscal Agent has received the required notice from the District, the Fiscal Agent will give notice, in the name and at the expense of the District, of the redemption of such Bonds. Such notice of redemption will: (a) specify the serial numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds subject to redemption, or all of the



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

With respect to any notice of optional redemption of the Bonds, such notice may state that such redemption is conditional upon the receipt by the Fiscal Agent, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, premium if any, and interest on the Bonds to be redeemed and upon other conditions set forth therein and that, if such moneys have not been so received and such other conditions have not been satisfied, said notice will be of no force and effect and the Fiscal Agent will not be required to redeem such Bonds. If any condition stated in the redemption notice for an optional redemption has not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect; (ii) the District will not be required to redeem such Bonds; (iii) the redemption will not be made; and (iv) the Fiscal Agent will within a reasonable time thereafter give notice to the persons in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

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

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

Upon the payment of the redemption price of any Bonds being redeemed, each check or other transfer of funds issued for such purpose will 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.

### **Registration of Exchange or Transfer**

Upon cessation of the book-entry system, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Corporate Trust Office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. Bonds may be exchanged at the Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Fiscal Agent will not collect from the Bondowner any charge for any new Bond issued upon any exchange or transfer, but will require the Bondowner requesting

such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bond is surrendered for registration of transfer or exchange, the District will execute and the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount; provided that the Fiscal Agent is not required to register transfers or make exchanges of: (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

As described below, the principal of and interest on the Bonds are payable from Net Taxes (Special Taxes remaining after the payment of the Administrative Expense Requirement) and all amounts in the Bond Fund (including the Debt Service Account and the Reserve Account) established under the Indenture. Amounts in the Surplus Fund are not pledged to the repayment of the Bonds. The "Net Taxes" are the Special Tax proceeds, including all net proceeds from foreclosure sales for delinquent Special Taxes, penalties and interest received by the District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure remaining after payment of the Administrative Expense Requirement (as defined in Appendix D). The Bonds are secured only by the Net Taxes collected within the District and amounts held in the Bond Fund from time to time.

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

### **Special Taxes**

*General.* In accordance with the provisions of the Act, the City Council established the District on September 20, 2006 for the purpose of financing the design, construction, expansion, acquisition, leasing and rehabilitation of certain public facilities within or serving the District, as provided in the Resolution of Formation. The Resolution of Formation and the Resolution to Incur Bonded Indebtedness authorized the District to submit a proposition to the qualified electors of the District to authorize the issuance of an aggregate principal amount of bonds not to exceed \$20,000,000 and the annual levy and collection of the Special Tax pursuant to the terms and conditions of the Act. The levy of the Special Tax and the Rate and Method were approved by the qualified electors within the District on September 20, 2006. On September 27, 2006, the City Council, acting as the legislative body of the District, adopted the Ordinance, which provides for the levying of the Special Tax. The Rate and Method approved by the City Council and the qualified electors is set forth in Appendix A.

The City Council, as the legislative body of the District, has covenanted in the Indenture to fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on Outstanding Bonds and Parity Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Account for the Bonds and Parity Bonds (as described under the caption "—Reserve Account"), an amount equal to the estimated Administrative Expenses and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. The City Council, as the legislative body of the District, has further covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and Parity Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the Maximum Special Tax rates on Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds.

For purposes of the foregoing covenant, the terms “Maximum Special Tax” and “Developed Property” have the meanings set forth in the Rate and Method. See Appendix A.

Notwithstanding the foregoing, the Special Taxes levied in any Fiscal Year of the District ending June 30 (each, a “Fiscal Year”) may not exceed the maximum rates authorized pursuant to the Rate and Method for the District. See Appendix A. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS—Insufficiency of Special Taxes.”

The Special Taxes will be payable and collected in the same manner and at the same time and in the same installment 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; provided that the City Council may provide for direct collection of the Special Taxes in certain circumstances.

Under no circumstances will the Special Taxes levied against any parcel of Residential Property (as described in Appendix A and under the caption “—Rate and Method of Apportionment of Special Tax”) be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other parcel within the District.

Although the Special Taxes constitute liens on taxed parcels within the District, such taxes do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the District or the landowners therein. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.” There is no assurance that the property owners in the District will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so. See the caption “SPECIAL RISK FACTORS.”

***Rate and Method of Apportionment of Special Tax.*** The District is legally authorized and has covenanted to cause the levy of the Special Taxes in an amount determined according to the Rate and Method, which the City Council and the qualified electors of the District have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in the District as more particularly described in Appendix A. The District adopted the Rate and Method following public hearings and elections conducted pursuant to the provisions of the Act. The full text of the Rate and Method is set forth in Appendix A.

The Rate and Method classifies property within the District as “Taxable Property” or property which is exempt from the Special Tax. Taxable Property is further classified as “Developed Property,” “Undeveloped Property,” “Provisional Property” or “Taxable Public Property.” Developed Property consists of all Assessor’s Parcels in the District for which Building Permits (as such term is defined in the Rate and Method) were issued on or before March 1 preceding the Fiscal Year for which Special Taxes are being levied, provided that the Final Map (as such term is defined in the Rate and Method) for such Assessor’s Parcels was created on or before January 1 of the prior Fiscal Year and that each such Assessor’s Parcel is associated with a Lot (as such term is defined in the Rate and Method). Developed Property is further classified as Residential Property or Non-Residential Property. Currently, all property within the District consists of Developed Property which is Residential Property. See the caption “THE COMMUNITY FACILITIES DISTRICT.”

The amount of Special Tax that the District may levy is limited by the Maximum Special Tax rates set forth in the Rate and Method. Under the Rate and Method, the Maximum Special Tax for a parcel of Residential Property classified as Developed Property is the greater of: (i) the amount derived from the application of the Assigned Special Tax, which varies by building square footage and is described in Part D of the Rate and Method; or (ii) the amount derived from the application of the Backup Special Tax, as described in Part E of the Rate and Method.

The City Council levies the Special Tax, which levy commenced in Fiscal Year 2006-07, in four steps (to the extent necessary): first, Proportionately on each Assessor's Parcel of Developed Property up to 100% of the applicable Assigned Special Tax; second, Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the applicable Assigned Special Tax; third, for each Assessor's Parcel of Developed Property whose Maximum Special Tax is equal to the Backup Special Tax, increasing Proportionately up to the Backup Special Tax; and fourth, Proportionately on each Assessor's Parcel of Provisional Property and Taxable Public Property up to the applicable Assigned Special Tax for Undeveloped Property. All Taxable Property within the District is now classified as Residential Property and Developed Property under the Rate and Method.

UNDER NO CIRCUMSTANCES MAY THE SPECIAL TAX ON ANY ASSESSOR'S PARCEL EXCEED THE MAXIMUM RATES AS SET FORTH IN APPENDIX A.

In connection with the issuance of the Bonds, Special District Financing & Administration LLC, the District's Special Tax Consultant, will certify that the Maximum Special Tax that may be levied on assessor's parcels within the District will be at least equal to 110% of maximum annual debt service on the Bonds plus the Administrative Expense Requirement. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies.

Under the Rate and Method, the owner of a parcel may voluntarily prepay the Special Tax obligation for a parcel in whole or in part. Any voluntary prepayment of Special Taxes will result in a special mandatory redemption of the Bonds and any Parity Bonds. See the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments."

***Collection of Special Taxes and Flow of Funds.*** The District has covenanted to and will, on each date on which Special Taxes are apportioned to the District, deposit the Special Taxes in the Special Tax Fund maintained by the District. As the Special Taxes are received each Fiscal Year, the District may disburse from the Special Tax Fund an amount up to the Administrative Expense Requirement to pay Administrative Expenses. Except for purposes of investment, no other amounts will be disbursed from the Special Tax Fund in a Fiscal Year until the District has transferred to the Fiscal Agent an amount sufficient:

- (i) to increase the amount on deposit in the Debt Service Account of the Bond Fund to an amount not less than the interest and principal due on the Bonds on the March 1 in such Fiscal Year and the September 1 of the following Fiscal Year (the "Required Debt Service Deposit"); and
- (ii) to maintain the balance in the Reserve Account of the Bond Fund in an amount equal to the Reserve Requirement, as described under the caption "—Reserve Account."

Not later than the last Business Day of February and the last Business Day of August in each year, the District will transfer from the Special Tax Fund to the Fiscal Agent for deposit in the Bond Fund all Net Taxes in the Special Tax Fund until the amount in the Debt Service Account of the Bond Fund equals the Required Debt Service Deposit and the balance in the Reserve Account of the Bond Fund equals the Reserve Requirement.

Except for Special Tax Prepayments, which will be deposited in the Redemption Account of the Bond Fund and applied to redeem Bonds as described under the caption "THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments," the Fiscal Agent will, on each date on which the Net Taxes are received from the District, deposit the Net Taxes in the Bond Fund to be held in trust for the Owners. The Fiscal Agent will transfer the Special Taxes on deposit in the Bond Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to: (1) the Debt Service Account of the Bond Fund; (2) the Reserve Account of the Bond Fund; (3) the Rebate Fund; and (4) the Surplus Fund. The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be transferred to the District to be used for any lawful purpose.

### **Covenant Not to Reduce Special Tax Rates Unless Certain Conditions are Met**

The District has covenanted in the Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax so long as the Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the maximum Special Tax rates on then existing Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to 110% of annual debt service on the Outstanding Bonds and Parity Bonds.

The District has further covenanted that in the event that any initiative is adopted which purports to reduce maximum Special Tax rates or to limit the power of the District to levy Special Taxes for the purposes set forth above, it will commence and pursue legal action seeking to preserve its ability to comply with its covenants. There are no California court cases interpreting the enforceability of the foregoing covenants in light of Article XIII C of the State Constitution. See the caption "SPECIAL RISK FACTORS—Proposition 218."

### **Existing Liens**

The lots within the District are subject to additional indebtedness as set forth under the heading "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness."

The lien for the Special Taxes is co-equal to the lien for the overlapping assessments and special taxes and the lien for general property taxes. See the caption "THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness."

Except as disclosed in this Official Statement, the District is unaware of any present or contemplated assessment district or community facilities district that includes property within the District. See the caption "THE COMMUNITY FACILITIES DISTRICT." The District has no control, and the City has only limited 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, will be on a parity with the Special Taxes. See the caption "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

### **No Obligation of the City Upon Delinquency**

The City is under no obligation to transfer any funds of the City into the Special Tax Fund for payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See the caption "—Proceeds of Foreclosure Sales" for a discussion of the District's obligation to foreclose Special Tax liens upon delinquencies.

### **Special Taxes Are Not Within Teeter Plan**

The County operates under a statutory program entitled the Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan, certain local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City does not participate in the Teeter Plan and community facilities districts such as the District are not eligible to participate in the Teeter Plan; the Special Taxes are therefore not subject to the Teeter Plan. Accordingly, the District's receipt of Special Taxes is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies. See the caption "THE COMMUNITY FACILITIES DISTRICT—Delinquency History" for historical delinquencies within the District.

## Proceeds of Foreclosure Sales

The net proceeds received following a judicial foreclosure sale of land within the District resulting from a property owner's failure to pay the Special Tax when due are pledged to the payment of principal of and interest on the Bonds. See the caption "—Special Taxes."

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 order, and cause to be commenced as hereinafter provided and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the Superior Court of the County to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following paragraphs.

On or about July 1 of each Fiscal Year, the District will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Taxes theretofore received by the District, and:

(A) Individual Delinquencies. If the District determines that parcels under common ownership subject to the Special Tax in the District are delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the District will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the District within 90 days of such determination.

(B) Aggregate Delinquencies. If the District determines that both: (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under clause (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year; and (ii) the balance on deposit in the Reserve Account of the Special Tax Fund is either: (a) less than the Reserve Requirement; or (b) is anticipated to be less than the Reserve Requirement as a result of such Special Tax delinquencies, then the District will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

If foreclosure is necessary and other funds (including amounts in the Reserve Account of the Special Tax 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 District. See the caption "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure." 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 the caption "SPECIAL RISK FACTORS—Land Values." 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.

## **Debt Service Reserve Insurance Policy**

BAM has made a commitment to issue a municipal bond debt service reserve insurance policy (the “Reserve Policy”) for the Reserve Account in an amount equal to the Reserve Requirement with respect to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Reserve Policy, BAM will, subject to the Reserve Policy Limit described below, unconditionally and irrevocably guarantee to pay that portion of the scheduled principal of and interest on the Bonds that becomes due for payment but shall be unpaid by reason of nonpayment by the District (the “Insured Payments”).

BAM will pay each portion of an Insured Payment that is due for payment and unpaid by reason of nonpayment by the District to the Fiscal Agent, as beneficiary of the Reserve Policy on behalf of the holders of the Bonds, on the later to occur of: (i) the date that such scheduled principal or interest becomes due for payment; or (ii) the Business Day next following the day on which BAM receives a demand for payment therefor in accordance with the terms of the Reserve Policy.

No payment shall be made under the Reserve Policy in excess of the lesser of \$1,056,000\* and the Reserve Requirement established for the Bonds (the “Reserve Policy Limit”). The Reserve Requirement for the Bonds is defined as the amount equal to the lowest of: (a) 10% of the original proceeds of the Bonds; (b) maximum annual principal and interest requirements on all Bonds outstanding; or (c) 125% of the average annual principal and interest requirements on all Bonds outstanding. See Appendix D. Pursuant to the terms of the Reserve Policy, the amount available at any particular time to be paid to the Fiscal Agent will automatically be reduced to the extent of any payment made by BAM under the Reserve Policy, provided that, to the extent of the reimbursement of such payment by the District to BAM, the amount available under the Reserve Policy will be reinstated in full or in part, in an amount not to exceed the Reserve Policy Limit.

The Reserve Policy does not insure against nonpayment caused by the insolvency or negligence of the Fiscal Agent.

BAM makes no representation regarding the Bonds or the advisability or suitability of investing in the Bonds. In addition, BAM has not verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the captions “BOND INSURANCE” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Debt Service Reserve Insurance Policy.”

The District is not obligated: (i) to make any additional deposits into the Reserve Account in the event that BAM defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of BAM.

## **Issuance of Parity Bonds**

The District may, at any time after the issuance and delivery of the Bonds under the Indenture, issue additional bonds (“Parity Bonds”) payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds; provided that Parity Bonds may be issued only to refund outstanding Bonds or Parity Bonds. Pursuant to the Act and the District’s authorization of the Bonds, the District may issue or incur indebtedness payable from a pledge of Special Taxes which is subordinate in all respects to the pledge of Net Taxes under the Indenture. The District has no current plans to issue such subordinate indebtedness. See Appendix D.

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\* Preliminary; subject to change.

## **Priority of Bonds and Pledge of Net Taxes**

The District has pledged and assigned to the Fiscal Agent all Net Taxes for the payment of principal of, premium, if any, and interest on the Bonds. Pursuant to the Act and the Indenture, the Bonds will be and are equally secured by a pledge of and lien upon the Net Taxes, and certain other amounts on deposit in the Bond Fund. So long as any of such Bonds are Outstanding and unpaid, the Net Taxes and the interest thereon may be used only as provided in the Indenture unless the Bondowners authorize other uses of such Net Taxes pursuant to the provisions of the Indenture. Nothing in the Indenture or in any Supplemental Indenture precludes the redemption prior to maturity of any Bonds subject to call and redemption or the payment of the Bonds from proceeds of refunding bonds issued under the Act or under any other law of the State.

## **BOND INSURANCE**

*The information under this caption has been prepared by BAM for inclusion in this Official Statement. Neither the District nor the Underwriter has reviewed this information, nor does the District or the Underwriter make any representation with respect to the accuracy or completeness thereof. The following information is not a complete summary of the terms of the Policy and reference is made to Appendix G for a specimen of the Policy (as such term is defined below).*

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were



initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

***Capitalization of BAM.***

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$475.7 million, \$26.9 million and \$448.8 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the caption "BOND INSURANCE."

***Additional Information Available from BAM.***

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditinsights/](http://buildamerica.com/creditinsights/).

**Obligor Disclosure Briefs.** Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/).

**Disclaimers.** The Obligor Disclosure Briefs and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Obligor Disclosure Briefs and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Obligor Disclosure Briefs and Credit Insight videos are prepared by BAM and have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and they assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## **THE COMMUNITY FACILITIES DISTRICT**

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

The District was formed on September 20, 2006 and consists of approximately 167 gross acres. The District is located within the City approximately 5 miles east of its downtown area, approximately 33 miles northeast of downtown San Diego and approximately 45 miles north of the United States/Mexico international border. The District is fully built out and consists of 340 fully developed detached single family homes ranging in size from 2,328 square feet to 3,844 square feet, 338 of which are subject to the Special Taxes.

The property within the District was developed by the Developer, of which Lennar Homes of California, Inc., a California corporation, was managing member and Centex Homes, a Nevada general partnership, was a member. The Developer commenced construction of the first units in May 2006. The last building permit in the District was issued on June 29, 2010 and the Developer has conveyed all of the units in the District to individual homeowners. All of the 340 completed homes, including two homes the owners of which prepaid their Special Tax obligation in June and December 2008, respectively, are within Final Tract Map No. 839 recorded on February 15, 2006.

The average Assigned Special Tax levied for Fiscal Year 2014-15 per parcel within the District was \$3,655.79 or \$1.20 per building square foot ("BSF"). The actual Assigned Special Tax was levied at approximately 89% of the maximum Assigned Special Tax for Fiscal Year 2014-15.

### **Direct and Overlapping Indebtedness**

The ability of an owner of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These taxes consist of the direct and overlapping debt set forth in Table 1 below. As of March 1, 2015, the sum of the direct and overlapping tax and assessment debt applicable to the property within the District, including the Refunded Bonds, was \$19,442,325. In addition, other public agencies whose boundaries overlap those of the District could, without the consent of the District, and in certain cases without the consent of the owners of the land within the District, impose additional taxes or assessment liens on the property within the District in order to finance public improvements to be located inside of or outside of such area. The lien created on the property within the District through the levy of such additional taxes or assessments may be on a parity with the lien of the Special Taxes. See the caption "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

Set forth below is a direct and overlapping debt report prepared by California Municipal Statistics, Inc. as of March 1, 2015. The table reflects an assessed value of the taxable property within the District of \$150,571,402 for Fiscal Year 2014-15. Allocations of overlapping debt to property within the District are based on the assessed value of the area covered by the overlapping indebtedness. The debt report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, 1% *ad valorem* taxes or other special taxes. Certain of the overlapping debt obligations are described in further detail under the caption "—Ad Valorem Overrides." The debt report and the information set forth under the caption "—Ad Valorem Overrides" are included for general information purposes only and does not include debt issued by public entities after March 1, 2015, if any. Although the District and the Underwriter have reviewed the debt report and the information set forth under the caption "—Ad Valorem Overrides", neither the District nor the Underwriter makes any representations as to their completeness or accuracy.

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**TABLE 1**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**DIRECT AND OVERLAPPING DEBT**

2014-15 Local Secured Assessed Valuation: \$150,571,402<sup>(1)</sup>

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	Total Debt 3/1/15	% Applicable	District's Share of Debt 3/1/15 <sup>(2)</sup>
The Metropolitan Water District of Southern California			
General Obligation Bonds	\$110,420,000	0.007%	\$ 7,180
Palomar Community College District General Obligation Bonds	300,493,901	0.151	454,310
Escondido Union High School District General Obligation Bonds	96,027,510	0.949	911,462
Escondido Union School District General Obligation Bonds	38,434,622	0.983	377,764
City of Escondido General Obligation Bonds	72,180,000	1.164	840,409
Palomar Pomerado Hospital District General Obligation Bonds	471,441,406	0.221	1,041,200
<b>Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)</b>	<b>15,810,000*</b>	<b>100.000</b>	<b><u>15,810,000*</u></b>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$19,442,325</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Diego County General Fund Obligations	\$351,670,000	0.036%	\$ 126,347
San Diego County Pension Obligation Bonds	682,615,180	0.036	245,249
San Diego County Superintendent of Schools Obligations	14,732,500	0.036	5,293
Palomar Community College District General Fund Obligations	4,435,000	0.151	6,705
Escondido Union High School District Certificates of Participation	59,310,000	0.949	562,951
Escondido Union School District Certificates of Participation	19,695,000	0.983	193,577
City of Escondido Refunding Lease Revenue Bonds	4,415,000	1.164	<u>51,405</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,191,527</b>
 <b>COMBINED TOTAL DEBT</b>			<b>\$20,633,852<sup>(3)*</sup></b>

Ratios to 2014-15 Assessed Valuation:

<b>Direct Debt (\$15,810,000) .....</b>	<b>10.50%*</b>
Total Direct and Overlapping Tax and Assessment Debt .....	12.91%
Combined Total Debt .....	13.70%*

<sup>(1)</sup> Taxable parcels only. Excludes two parcels for which Special Taxes have been prepaid. See the caption "—General Description of the District."

<sup>(2)</sup> As of March 1, 2015 for all entities other than the District.

<sup>(3)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Source: California Municipal Statistics, Inc.

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\* Preliminary; subject to change.

Table 2 below sets forth the Fiscal Year 2014-15 effective tax rate within the District. The estimated tax rates and amounts presented below are based on currently available information and actual amounts may vary and increase or decrease in future years. The below estimated Fiscal Year 2014-15 effective tax rate is an average for a typical home within the District and does not represent the actual tax rate for any parcel or parcels.

**TABLE 2**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**ESTIMATED FISCAL YEAR 2014-15 EFFECTIVE TAX RATE**

**ASSESSED VALUATION AND PROPERTY TAXES**

Total Assessed Value of Taxable Property <sup>(1)</sup>	\$ 150,571,402
Number of Dwelling Units	338
Average Assessed Value of Taxable Dwelling Unit	\$ 445,478
Average Home Size (Tax Class 3) in Square Feet	3,038

	<i><b>Tax Rate</b></i>	<i><b>Expected Levy</b></i> <sup>(2)</sup>
<b>AD VALOREM PROPERTY TAXES</b>		
General Purpose	1.00000%	\$ 4,454.78
Palomar Pomerado Health 2005A	0.02350	104.69
General Bond Escondido Prop A 2007A Refunding	0.00277	12.34
General Bond Escondido Prop K 2002A Refunding	0.00000	0.00
General Bond Escondido Prop K 2007B Refunding	0.01890	84.20
High School Bond Escondido Prop A Series 1996A	0.02979	132.71
High School Bond Escondido Prop T Series 2009A <sup>(3)</sup>	0.00000	0.00
High School Bond Escondido Prop T Series 2009B <sup>(3)</sup>	0.00000	0.00
High School Bond Escondido Prop T Series 2011C <sup>(3)</sup>	0.00000	0.00
Palomar Community College Prop M 2006A	0.00874	38.93
Palomar Community College Prop M 2006B	0.00414	18.44
Escondido City Public Safety Facilities Improvement Bond	0.03591	159.97
Metropolitan Water District Debt Service SDCWA	0.00350	15.59

**ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES**

Metropolitan Water District Water Standby Charge	\$ 11.50
City of Escondido Landscape Maintenance District No. 1, Zone 28	296.32
Mosquito Surveillance	2.28
Community Facilities District No. 2006-01 (Eureka Ranch)	3,654.71
SDCWA Water Availability Charge	10.00
Vector Disease Control	5.86
<b>PROJECTED TOTAL PROPERTY TAXES</b>	<b>\$ 9,002.32</b>

**Percent of Property Taxes to Average Assessed Value<sup>(4)</sup>** **2.02082%**

<sup>(1)</sup> Reflects Fiscal Year 2014-15 assessed valuation. Source: County of San Diego Assessor data roll dated July 1, 2014.

<sup>(2)</sup> Reflects estimated property taxes based on Fiscal Year 2014-15 assessed values and Fiscal Year 2014-15 tax rates.

<sup>(3)</sup> Debt service payments on these obligations is scheduled to begin in Fiscal Year 2021.

<sup>(4)</sup> Projected Total Property Taxes divided by Average Assessed Value of Taxable Dwelling Unit.

Source: Special District Financing & Administration LLC.

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## Summary of Special Tax Levy

A summary of the District's Fiscal Year 2014-15 Special Tax levy is set forth in Table 3 below.

**TABLE 3**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**FISCAL YEAR 2014-15 SPECIAL TAX LEVY**

<i>Tax Class</i>	<i>Building Square Foot ("BSF")</i>	<i>Number of Taxable BSF/Acres</i>	<i>Maximum Assigned Special Tax Per BSF/Acres</i>	<i>Actual<sup>(1)</sup> Assigned Special Tax Levy Per BSF/Acres</i>	<i>Fiscal Year 2014-15 Levy Total</i>
Residential Property					
Tax Class 1	> 3,600 sq. ft.	98,780	\$ 1.214	\$ 1.0818	\$ 106,868.48
Tax Class 2	3,251 - 3,600 sq. ft.	274,660	1.275	1.1362	311,950.56
Tax Class 3	2,851 - 3,250 sq. ft.	376,450	1.350	1.2030	452,825.96
Tax Class 4	2,551 - 2,850 sq. ft.	104,756	1.407	1.2538	130,029.78
Tax Class 5	< 2,550 sq. ft.	172,056	1.526	1.3599	233,984.08
Non-Residential Property					
Tax Class 6	N/A	0	20,750.00	18,491.43	0.00
Undeveloped Property		0	20,750.00	0.00	0.00
<b>Total</b>		<b>1,026,702</b>			<b>\$ 1,235,658.86</b>

<sup>(1)</sup> Actual tax rates multiplied by the number of taxable units may not match parcel listing due to rounding and partial prepayments.

## Ad Valorem Overrides

*The information in this caption has been provided by Special District Financing & Administration LLC, the District's Special Tax Consultant. Neither the District nor the Underwriter makes any representations as to the completeness or accuracy of the information in this caption.*

**The Metropolitan Water District of Southern California.** Property within the District is subject to a tax by the Metropolitan Water District of Southern California for debt service. The rate on such property is 0.00350% of assessed value. The tax is used to pay debt service on \$850,000,000 in bonds which were issued by the Metropolitan Water District of Southern California under an authorization of \$850,000,000, and of which approximately \$110,420,000 was outstanding as of March 1, 2015.

**Palomar Community College District.** Property within the District is subject to a tax by Palomar Community College District resulting from the issuance of \$334,998,901 in general obligation bonds (of which \$300,493,901 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$454,310 is allocable to property in the District. These bonds have been, and are intended to be, issued to maintain and modernize the community college district's San Marcos college campus and to create new educational opportunities in underserved areas of the District. The bond authorization approved by the qualified voters in November 2006 was \$694,000,000. As of March 1, 2015, there remained approximately \$359,001,099 in authorized but unissued bonds.

On April 8, 2015, Palomar Community College District issued its Election 2006 Series C General Obligation Bonds in the amount of \$220,000,000. As of such date, \$139,001,099 of the bonds authorized by the 2006 authorization remain unissued.

**Escondido Union High School District.** Property within the District is subject to a tax by Escondido Union High School District resulting from the issuance of \$42,974,777.85 in general obligation bonds pursuant

to a 1996 authorization and \$81,213,747.60 in general obligation bonds pursuant to a 2008 authorization (of which \$14,813,762.00 of the 1996 authorization and \$81,213,747.60 of the 2008 authorization is currently outstanding), of which, according to California Municipal Statistics, Inc., a total of \$911,462 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance high school facilities, including design, construction, acquisition, improvement, installation, restoration, rehabilitation, modernization and improvement of public schools, school sites, school facilities and support facilities. The bond authorizations approved by the qualified voters in 1996 and 2008 were \$42,976,000 and \$98,000,000, respectively. This tax is scheduled to end in or about 2052 based on the currently issued debt. The estimated Fiscal Year 2014-15 tax rate is approximately 0.02979% of assessed value.

***Escondido Union School District.*** Property within the District is subject to a tax by Escondido Union School District resulting from the issuance of general obligation bonds, of which, according to California Municipal Statistics, Inc., \$377,764 is allocable to property within the District. Under the June 1988 authorization of \$27,000,000, \$13,100,000 in general obligation refunding bonds were issued in May 2007, of which \$610,000 remains outstanding as of March 1, 2015. The term of these bonds ends in 2015. A second bond issuance was approved by the qualified voters in March 2002 in the amount of \$46,300,000. Subsequently, \$46,299,622.30 in general obligation bonds was issued in July 2002, of which \$1,274,622.30 remains outstanding as of March 1, 2015. The term of these bonds ends in 2027. A portion of the original issue of the second authorization was refunded in April 2007 through the sale of \$39,180,000 of refunding general obligation bonds, of which \$36,550,000 remains outstanding. The term of the refunding bonds of the second authorization ends in 2026. These bonds have been, and are intended to be, issued to finance school facilities. The estimated Fiscal Year 2014-15 tax rate is approximately 0.02167% of assessed value.

On November 4, 2014, the Escondido Union School District electorate passed Proposition E, which authorized the issuance of up to \$182,100,000 in general obligation bonds. According to Escondido Union School District's Fiscal Year 2014 audited financial statements, the authorization is planned to be issued over the next 18 years in seven series. No bonds have yet been issued pursuant to this authorization.

***City of Escondido.*** Property within the District is subject to a tax by the City resulting from the issuance of \$84,350,000 in general obligation bonds (of which \$72,180,000 is currently outstanding) (the "2006 GO Bonds"), of which, according to California Municipal Statistics, Inc., \$840,409 is allocable to property in the District. These bonds were issued to finance construction, upgrades and acquisition of land for City fire stations and police headquarters. The bond authorization approved by the qualified voters in 2004 was \$84,350,000. This tax is scheduled to end in or about 2036. The estimated Fiscal Year 2014-15 tax rate is approximately 0.03591% of assessed value.

On April 22, 2015, the City authorized the issuance of general obligation bonds in an aggregate principal amount not to exceed \$77,000,000 (the "2015 GO Bonds"). If issued, proceeds of the 2015 GO Bonds will be applied to refund the 2006 GO Bonds for debt service savings. There can be no assurance that the 2015 GO Bonds will be issued.

***Palomar Pomerado Hospital District.*** Property within the District is subject to a tax by Palomar Pomerado Hospital District resulting from the issuance of \$495,999,997.60 in four series of general obligation bonds (of which \$471,441,404.95 is currently outstanding), of which, according to California Municipal Statistics, Inc., \$1,041,200 is allocable to property in the District. These bonds have been, and are intended to be, issued to finance land acquisition, and to build, renovate and improve existing or new medical facilities within the hospital district. The bond authorization approved by the qualified voters in 2004 was \$496,000,000. This tax is scheduled to end in or about 2040. The estimated Fiscal Year 2014-15 tax rate is approximately 0.02350% of assessed value.

## **Direct Assessments**

The following direct assessments are applicable to properties within the District.

**City of Escondido Landscape Maintenance District No. 1, Zone 28.** This assessment pays for the maintenance of landscape improvements on public right-of-ways within the boundaries of Final Tract Map No. 839, including the District. The current authorized maximum assessment for Fiscal Year 2014-15 is \$502.95 per dwelling unit. The actual levy for Fiscal Year 2014-15 is \$296.32, or approximately 59% of the maximum authorized levy. The authorized maximum assessment increases annually in accordance with the consumer price index. Any additional increase in the assessment in excess of the consumer price index must be approved by the voters.

**Metropolitan Water District Water Standby Charge.** The standby charge is a pay-as-you-go assessment for capital improvements of the distribution systems, the construction and maintenance of reservoirs, as well as the California State Water Project costs. The current assessment for Fiscal Year 2014-15 is \$11.50 per parcel.

### Historical Assessed Values

The following table sets forth the assessed valuation within the District for the current and four prior Fiscal Years.

**TABLE 4  
COMMUNITY FACILITIES DISTRICT NO. 2006-01  
OF THE CITY OF ESCONDIDO (EUREKA RANCH)  
HISTORICAL ASSESSED VALUES**

<i>Fiscal Year</i>	<i>Valuation Date</i>	<i>Taxable Assessed Value<sup>(1)</sup></i>	<i>Number of Taxable Developed Parcels</i>	<i>Number of Prepaid Parcels</i>	<i>Number of Developed Units</i>	<i>Number of Undeveloped Lots</i>
2010-11	1/1/2010	\$128,342,931	337	2	339	1
2011-12	1/1/2011	137,870,855	338	2	340	0
2012-13	1/1/2012	133,276,540	338	2	340	0
2013-14	1/1/2013	132,173,830	338	2	340	0
2014-15	1/1/2014	150,571,402	338	2	340	0

<sup>(1)</sup> Excludes the value of all prepaid developed units and includes the value of all lots classified as partially prepaid or undeveloped.  
Source: Special District Financing & Administration LLC.

The assessed values shown above reflect the latest information as of the Fiscal Year 2014-15 tax roll and are not adjusted to reflect any appeals; the Special Tax Consultant reports that as of April 1, 2015, there were no pending appeals of assessed valuations in the District.

### Estimated Value-to-Lien Ratios

The following table sets forth the estimated assessed value-to-lien ratios for parcels within the District by various ranges based on the Fiscal Year 2014-15 assessed valuation and the direct and overlapping debt information included in Table 1. As summarized below, the estimated assessed value-to-lien ratio for all parcels within the District is approximately 8.87\* to 1 (11.28\* to 1 for debt of the District alone), but the ratios over individual parcels vary widely. The value of the individual parcels is significant because, in the event of a delinquency in payment, the District's only remedy is to foreclose on the delinquent parcel. A parcel with a lower value-to-lien ratio may be less likely to sell at foreclosure or provide sale proceeds adequate to pay all delinquent Special Tax installments. The value-to-lien ratios shown in the below table are based on assessed values rather than market values. Prospective purchasers of the Bonds should not assume that the property

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\* Preliminary; subject to change.

within the District could be sold for the assessed values listed in the below table. See the caption “SPECIAL RISK FACTORS—Land Values.”

Assessed values do not necessarily represent market values. Article XIII A of the State Constitution (Proposition 13) defines “full cash value” to mean “the County assessor’s valuation of real property as shown on the 1975/76 roll under ‘full cash value,’ or, thereafter, the appraised value of real property when purchased or newly constructed or when a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors. Because of the general limitation to 2% per year in increases in full cash value of properties which remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values. Moreover, as a result of declines in the market value of properties in recent years, assessed valuations of many properties in the County have declined in the recent years. As a result of the foregoing, there can be no assurance that the assessed valuations of the properties within the District accurately reflect their respective market values, and the future fair market values of those properties may be lower than their current assessed valuations. See the caption “SPECIAL RISK FACTORS—Land Values.”

No assurance can be given that, should a delinquent parcel be foreclosed and sold for the amount of the delinquency, any bid will be received for such parcel, or if a bid is received that such bid will be sufficient to pay such delinquent Special Taxes.

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**TABLE 5**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**ESTIMATED ASSESSED VALUE-TO-LIEN RATIOS BY RANGES<sup>(1)</sup>**

<i>Value-to-Lien*</i>	<i>Parcels</i>	<i>% of Total Parcels</i>	<i>Fiscal Year 2014-15 Actual Special Tax Levy</i>	<i>% of Fiscal Year 2014-15 Actual Special Tax Levy<sup>(2)</sup></i>	<i>Fiscal Year 2014-15 Assessed Value<sup>(3)</sup></i>	<i>% of Fiscal Year 2014-15 Assessed Value</i>	<i>Share of Aggregate Outstanding Debt<sup>(4)*</sup></i>	<i>Share of District's Outstanding Debt<sup>(5)*</sup></i>	<i>Share of Total Outstanding Debt*</i>	<i>% Share of Total Outstanding Debt*</i>	<i>Value-to- Lien Ratio<sup>(6)*</sup></i>
Less than 5:00 <sup>(7)</sup>	2	0.59%	\$ 6,332	0.51%	\$ 243,423	0.16%	\$ 5,872	\$ 68,383	\$ 74,256	0.44%	3.28
5.00 to 5.99:1 <sup>(7)</sup>	1	0.30	3,448	0.28	229,238	0.15	5,530	37,240	42,770	0.25	5.36
6.00 to 6.99:1	4	1.18	15,148	1.23	1,328,701	0.88	32,053	163,596	195,649	1.15	6.79
7.00 to 7.99:1	35	10.36	127,578	10.32	12,602,141	8.37	304,009	1,377,834	1,681,843	9.91	7.49
8.00 to 8.99:1	118	34.91	439,631	35.58	51,889,051	34.46	1,251,751	4,747,970	5,999,720	35.34	8.65
9.00 to 9.99:1	168	49.70	609,300	49.31	79,165,799	52.58	1,909,764	6,580,381	8,490,145	50.01	9.32
10:0- or Above	10	2.96	34,222	2.77	5,113,049	3.40	123,345	369,597	492,942	2.90	10.37
<b>Total</b>	<b>338</b>	<b>100.00</b>	<b>\$1,235,659</b>	<b>100.00%</b>	<b>\$150,571,402</b>	<b>100.00%</b>	<b>\$3,632,325</b>	<b>\$13,345,000</b>	<b>\$16,977,325</b>	<b>100.00%</b>	<b>8.87</b>

<sup>(1)</sup> Columns may not add up due to rounding.

<sup>(2)</sup> Reflects Special Tax levy for Developed Property and Residential Property, which constitutes 100% of Taxable Property within the District.

<sup>(3)</sup> Source: County of San Diego Assessor data closed roll as of July 1, 2014.

<sup>(4)</sup> Share of Aggregate Outstanding Debt was allocated based on Fiscal Year 2014-15 assessed value and sourced from Fiscal Year 2014-15 debt shown in Table 1, including all items shown with the exception of the District.

<sup>(5)</sup> Share of District's Outstanding Debt was allocated based on the Fiscal Year 2014-15 actual Special Tax Levy.

<sup>(6)</sup> Fiscal Year 2014-15 Assessed Value divided by Share of Total Outstanding Debt.

<sup>(7)</sup> Reflects parcels the assessed values of which were transferred pursuant to Revenue and Taxation Code § 69.5, which allows persons aged 55 and over to transfer the assessed value of an existing primary residence to a replacement primary residence within the same county.

Source: Special District Financing & Administration LLC.

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\* Preliminary; subject to change.

## Delinquency History

The following table is a summary of Special Tax levies, collections and delinquency rates in the District for Fiscal Years 2010-11 through the first installment of Fiscal Year 2014-15.

**TABLE 6**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**DELINQUENCY HISTORY**

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies as of June 30 of Fiscal Year in which Special Taxes Were Levied</i>			<i>Delinquencies as of April 22, 2015</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2010-11	\$1,129,373	337	2	\$6,687	0.59%	0	\$ 0	0.00%
2011-12	1,197,847	338	2	5,483	0.46	1	3,620	0.30
2012-13	1,217,779	338	1	3,680	0.30	1	3,680	0.30
2013-14	1,210,955	338	2	5,698	0.47	1	3,660	0.30
2014-15	1,235,659	338	N/A	N/A	N/A	8	19,917	1.61

Source: Special District Financing & Administration LLC.

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## Debt Service Coverage

The following table shows projected coverage of debt service on the Bonds from Net Taxes. Notwithstanding the debt service coverage indicated in the below table, the District may not levy Special Taxes at the maximum assigned rate because of limitations in the Act. Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any 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 parcel or parcels within the District by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—General.” Investors should not assume actual coverage in excess of 110% of debt service.

**TABLE 7**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-01**  
**OF THE CITY OF ESCONDIDO (EUREKA RANCH)**  
**PROJECTED DEBT SERVICE COVERAGE\***

<i>Fiscal Year</i>	<i>Maximum Assigned Special Tax Levy<sup>(1)</sup></i>	<i>Administrative Expenses</i>	<i>Net Maximum Assigned Special Taxes</i>	<i>Debt Service<sup>(2)*</sup></i>	<i>Debt Service Coverage*</i>
2015-16	\$1,386,553.35	\$47,803.70	\$1,338,749.65	\$ 1,052,515.56	127.20%
2016-17	1,386,553.35	48,759.78	1,337,793.57	1,051,750.00	127.20
2017-18	1,386,553.35	49,734.97	1,336,818.38	1,055,750.00	126.62
2018-19	1,386,553.35	50,729.67	1,335,823.68	1,049,750.00	127.25
2019-20	1,386,553.35	51,744.27	1,334,809.08	1,053,000.00	126.76
2020-21	1,386,553.35	52,779.15	1,333,774.20	1,050,000.00	127.03
2021-22	1,386,553.35	53,834.73	1,332,718.62	1,056,000.00	126.20
2022-23	1,386,553.35	54,911.43	1,331,641.92	1,055,500.00	126.16
2023-24	1,386,553.35	56,009.66	1,330,543.69	1,053,750.00	126.27
2024-25	1,386,553.35	57,129.85	1,329,423.50	1,055,750.00	125.92
2025-26	1,386,553.35	58,272.45	1,328,280.90	1,051,250.00	126.35
2026-27	1,386,553.35	59,437.90	1,327,115.45	1,050,500.00	126.33
2027-28	1,386,553.35	60,626.65	1,325,926.70	1,053,250.00	125.89
2028-29	1,386,553.35	61,839.19	1,324,714.16	1,054,250.00	125.65
2029-30	1,386,553.35	63,075.97	1,323,477.38	1,053,500.00	125.63
2030-31	1,386,553.35	64,337.49	1,322,215.86	1,051,000.00	125.81
2031-32	1,386,553.35	65,624.24	1,320,929.11	1,051,750.00	125.59
2032-33	1,386,553.35	66,936.72	1,319,616.63	1,045,500.00	126.22
2033-34	1,386,553.35	68,275.46	1,318,277.89	1,047,500.00	125.85
2034-35	1,386,553.35	69,640.97	1,316,912.38	1,047,250.00	125.75
2035-36	1,386,553.35	71,033.79	1,315,519.56	<u>1,044,750.00</u>	125.92
Total				<u>\$22,084,265.56</u>	

<sup>(1)</sup> Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any 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 parcel within the District by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults.

<sup>(2)</sup> Projected at an all-in interest true interest cost of 4.22%.\*

Source: Special District Financing & Administration LLC.

\* Preliminary; subject to change.

## **THE CITY OF ESCONDIDO**

*The following information relating to the City is included only for the purpose of supplying general information regarding the City. Neither the faith and credit nor taxing power of the City have been pledged to the payment of the Bonds and the Bonds will not be payable from any of City's revenues or assets.*

*Further information relating to the City is set forth in Appendix C.*

### **General Information**

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The City is governed by a five-member City Council. The Mayor is directly elected at large. Since 2014, the City has been divided into four districts, which are used for all regular elections of Council members. The City had a 2014 estimated population of 147,102, to which it provides police, fire, water and wastewater utilities, parks and recreation, public works, planning, engineering and other services.

The City had approximately 1,090 full and part-time employees as of June 30, 2014. City employees are represented by six labor unions and associations. Certain management and confidential employees are exempt from collective bargaining. Salaries for exempt employees are set by the City Council. The City has never experienced a strike, slowdown or work stoppage.

### **Government and Administration**

The City operates under a council/manager form of government. The City Manager, appointed by the City Council, serves as the City's chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City's organization, supports the informational and policymaking needs of the City Council, implements City Council decisions and prepares, manages, and implements the annual budgets for the City, as well as the City's Capital Improvement Program.

Clay Phillips is the City Manager. Mr. Phillips began his career with the City of Santa Ana from 1980 to 1983, as an accountant. Mr. Phillips also served as Deputy Finance Officer for the City of Irvine from 1983 to 1986. Mr. Phillips continued his career by accepting the Director of Finance position with the City in January 1986. In 1993, Mr. Phillips was promoted to Director of Financial and Administrative Services. In 1997, Mr. Phillips was promoted to Deputy City Manager. On July 3, 2003, Mr. Phillips accepted his present position as City Manager for the City. Mr. Phillips graduated from Loma Linda University with a Bachelor of Science in Business Administration. Mr. Phillips has a Master of Business Administration from Pepperdine University.

Other key personnel responsible for management of the City include the Director of Administrative Services. In addition, the City Attorney provides legal services to the City and the Authority.

Sheryl Bennett is the Director of Administrative Services for the City. Ms. Bennett has been with the City since 1999. She has served in several management positions in the City's Human Resources Department, including Personnel Manager and Director. Ms. Bennett was appointed Director of Administrative Services in January 2014, with responsibility for the City's Human Resources and Finance Departments. Ms. Bennett graduated from San Diego State University with a Bachelor of Science degree in Applied Arts and Sciences/Criminal Justice Administration. Ms. Bennett also has a Master of Business Administration from National University. Ms. Bennett is a member of the Government Finance Officers Association and the California Society of Municipal Finance Officers.

Jeffrey R. Epp is the City Attorney. Mr. Epp has been with the City since 1985. Prior to that time, Mr. Epp served as a prosecutor for the City Attorney's Office of Cheyenne, Wyoming. Mr. Epp obtained a Bachelor's degree in Political Science and a Juris Doctorate degree from the University of Wyoming, where he was also the Senior Editor of the Land and Water Law Review of the University of Wyoming School of Law. Mr. Epp is a member of the International Municipal Lawyers Association, and both the North County and San Diego Bar Association. He has served as the President of the San Diego/Imperial County City Attorneys Association, the League of California Cities Committee on Transportation, Communications and Public Works, on the League's Legal Advocacy Committee and has been a member of the Executive Committee of the Public Law Section of the California State Bar.

## **SPECIAL RISK FACTORS**

The purchase of the Bonds involves significant risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. Furthermore, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See the captions "—Land Values" and "—Limited Secondary Market" below.

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

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area and the market value of residential property or commercial buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

No assurance can be given that the individual property owners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption "—Bankruptcy and Foreclosure" 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 Indenture, 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 Indenture.

The amount of annual installments of Special Taxes that are collected could be insufficient to pay principal of and interest on the Special Tax Refunding Bonds due to non-payment of such Special Taxes levied or due to insufficient proceeds received from a judicial foreclosure sale of land within the District following delinquency. The City's and District's legal obligations with respect to any delinquent Special Taxes are limited to: (1) payments from the Reserve Account to the extent of funds on deposit therein; and (2) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales." The Bonds cannot be accelerated in the event of any default.

The obligation to pay Special Taxes does not constitute a personal obligation of the current or subsequent owners of the respective parcels which are subject to such liens. Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the Superior Court. There is no assurance that any current or subsequent owner of a parcel subject to a Special Tax lien will be able to pay the amounts due or that such owner will choose to pay such amounts even though financially able to do so.

### **Insufficiency of Special Taxes**

The principal source of payment of principal of and interest on the Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and application of the Rate and Method in accordance with the Resolution of Formation and the Act. Application of the Rate and Method will, in turn, be dependent upon certain development factors with respect to each Taxable Property by comparison with similar development factors with respect to the other Taxable Property within the District. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Taxable Property to vary from the Special Tax that might otherwise be expected:

(1) Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

(2) Reduction in the amount of Taxable Property, for such reasons as acquisition of Taxable Property by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property. The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to the problems associated with collecting taxes from public agencies, if a

substantial portion of land within the District were to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due, and a default could occur with respect to the payment of such principal and interest. See the caption “—FDIC/Federal Government Interests in Properties.”

Except as set forth above under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes,” the Indenture provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the District of the proceeds of sale if the Reserve Account is depleted. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.”

In addition, under no circumstances will the Special Taxes levied against any parcel of Residential Property be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other parcel within the District. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—General.”

### **Natural Disasters**

The District, like all California communities, may be subject to unpredictable seismic activity, wildfires, flood, landslide, high winds 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. A safety report for parts of the City’s municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the City. There is significant potential for destructive ground-shaking in the District during the occurrence of a major seismic event. In addition, land along the aforementioned fault lines 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, October 2007 and most recently in May 2014, such wildfires occurred in the County and the adjacent counties of Los Angeles, Orange, Riverside and San Bernardino, affecting parts of the City near the District and resulting in the destruction of homes.

In the event of a severe earthquake, wildfire, flood, landslide, high winds 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 hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State laws with regard to hazardous

substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The value of the property within the District, as set forth in the various tables herein, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the 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. Such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

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

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner and its only remedy is to pursue judicial foreclosure proceedings on the delinquent parcel.

#### **Parity Taxes and Special Assessments**

Property within the District is subject to taxes and assessments imposed by public agencies that also have jurisdiction over the land within the District. In addition, significant authorized but unissued overlapping debt exists which, if issued, will burden Taxable Property in the District. See the captions “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness” and “THE COMMUNITY FACILITIES DISTRICT—Ad Valorem Overrides.”

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

**Neither the District nor the City, however, have control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Accordingly, the debt on the property within the District could increase without any corresponding increase in the value of the property therein. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such**



**property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for the property within the District described herein or the willingness or ability of property owners within the District to pay the Special Taxes when due. Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE COMMUNITY FACILITIES DISTRICT—Direct and Overlapping Indebtedness.”**

## **Land Values**

The value of land within the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of a Special Tax installment, the District’s only remedy is to commence foreclosure proceedings on such property. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed value described herein at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales.” Reductions in property values within the District due to a downturn in the economy or the real estate market, events such as earthquakes, wildfires, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the liens. The property within the District is fully developed.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the County Assessor, generally not to exceed an increase of more than 2% per Fiscal Year as limited by Proposition 13, as amended by Proposition 8. In recent years, many counties in the State, including the County, have reassessed certain properties acquired in recent years at the peak of the real estate market. The District is aware that the County Assessor made reductions in Fiscal Year 2008-09 and 2009-10 assessed values within the District and the City generally. Approximately 78 of the 338 taxable parcels within the District were subject to Proposition 8 adjustments in prior years. See Table 4 under the caption “THE COMMUNITY FACILITIES DISTRICT—Historical Assessed Values” for the assessed values within the District in recent Fiscal Years. The District cannot predict whether the County will further reduce assessed values within the District in future years. If the County did decide to broadly reassess recent home transactions in the County, it is possible that in future years the assessed values shown in this Official Statement could be adjusted downward from the values reflected on the Fiscal Year 2014-15 Assessor’s Roll, as shown in Table 5. No assurance can be given that Fiscal Year 2014-15 assessed values reflect market values or that a parcel could actually be sold for its assessed value.

The actual market value of the property is subject to future events such as a downturn in the economy, occurrences of certain acts of nature and the decisions of various governmental agencies as to land use, all of which could adversely impact the value of the land in the District, which is the security for the Bonds. As discussed herein, many factors could adversely affect property values within the District.

## **Shapiro Decision**

On August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the “Court”), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The case involved a Convention Center Facilities District (the “CCFD”) established by the City of San Diego. The CCFD was a financing district established under the City of San Diego’s charter (the “Charter”) and was intended to function much like a community facilities district established under the provisions of the Act. The CCFD was comprised of all of the real property in the entire City of San Diego. However, the special tax to be levied within the CCFD was to be levied only on properties improved with a hotel located within the CCFD.

At the election to authorize such special tax, the Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was an election limited to owners and lessees of properties on which the special tax would be levied, and not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that the CCFD special tax election did not comply with applicable requirements of Article XIII A, Section 4 thereof and Article XIII C, Section 2 of the State Constitution, or with applicable provisions of the City of San Diego's Charter, because the electors in such an election were not the registered voters residing within the district.

In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (*viz.*, all of the registered voters in the City of San Diego). In the case of the District, there were no registered voters within the District at the time of the elections to authorize the special tax levy for the District. In *City of San Diego*, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court's holding does not apply to the special tax election in the District. Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act or the levy of special taxes authorized pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the special tax and the issuance of bonds for the District in compliance with all applicable requirements of the Act at the time of formation of the District in 2006. Therefore, under the provisions of Sections 53341 and 53359 of the Act, the statute of limitations period to challenge the validity of the special tax for each Community Facilities District has expired.

### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time when the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel, was informed of the maximum tax rate and the risk of such a levy and the ability of such owner to pay the Special Tax as well as other expenses and obligations. The City has caused a Notice of Special Tax Lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation when purchasing a property within the District or lending money with respect to such property.

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 that is 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 § 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.

### **Concentration of Ownership**

No property owner in the District is presently responsible for more than 0.97% of the Special Taxes levied within the District, and no property owner owns more than three parcels within the District. See the

caption “THE COMMUNITY FACILITIES DISTRICT.” There may be subsequent transfers of ownership of the property within the District. Failure of the owners of property to pay the annual Special Taxes when due could result in a default in payments of the principal of and interest on the Bonds. Such risk may be greater or its consequence more severe when ownership is concentrated and may be expected to decrease when ownership is diversified.

### **Potential Early Redemption of Bonds from Prepayments**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such prepayments will result in a redemption of Bonds on the first March 1 or September 1 which is more than 30 days following the receipt of the prepayment. See the caption “THE BONDS—Redemption of the Bonds—Special Mandatory Redemption from Special Tax Prepayments.”

### **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 the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See the caption “—FDIC/Federal Government Interests in Properties” for a discussion of the policy of FDIC regarding the payment of special taxes and assessments and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

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

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agencies such as the Federal National Mortgage Association (“FNMA”) or Freddie Mac, has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: “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, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

The foregoing is generally interpreted to mean that, unless the United States Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable State and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In *Rust v. Johnson* 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeal, Ninth Circuit (the “Ninth Circuit”), held that FNMA is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA

constitutes an exercise of state power over property of the United States. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see the caption “—Insufficiency of Special Taxes.”

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent that the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent that it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity. The Ninth Circuit issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Act special taxes.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes from being foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors’ rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners’ taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) or by the laws of the State relating to judicial foreclosure. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE

BONDS—Proceeds of Foreclosure Sales.” In addition, the prosecution of a foreclosure could be delayed for many reasons, including crowded local court calendars or lengthy procedural delays.

Second, the United States Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner in the District and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Although a bankruptcy proceeding would not cause the lien of the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by a bankruptcy court. In addition, the bankruptcy of a property owner could result in a stay of enforcement or other delay in procuring Superior Court foreclosure proceedings or adversely affect the willingness of a property owner to pay the Special Taxes. If enough parcels were subject to bankruptcy proceedings, court delays 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 various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified as to the enforceability of the various legal instruments by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if a court concludes that the ability to pay such taxes or assessments is materially affected by reason of such service.

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

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. Following payment of the Special Taxes to the District, such funds may be invested in the name of the City or the District for a period of time in the County investment pool. In the event of a petition of or the adjustment of County debts under Chapter 9 of the United States Bankruptcy Code, a court might hold that the Bondowners do not have a valid and/or prior lien on the Special Taxes or debt service payments where such amounts are deposited in the County investment pool and may not provide the Bondowners with a priority interest in such amounts. In that circumstance, unless the Bondowners could “trace” the funds that have been deposited in the County investment pool, the Bondowners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Bondowners could successfully so trace the Special Taxes or debt service payments.

### **No Acceleration Provision**

The Act, the Bonds and the Indenture do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture or in the event that interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Indenture and further subject to the prior lien of owners of Bonds, an owner is given the right for the

equal benefit and protection of all owners of a series similarly situated to pursue certain remedies described in Appendix D. See the caption “—Limitations on Remedies.”

### **Bond Insurance**

In the event that the District defaults in the payment of principal of or interest on the Bonds when due, the owners of the Bonds will have a claim under the Policy for such payments. See the caption “BOND INSURANCE.” In the event that BAM becomes obligated to make payments with respect to the Bonds, no assurance can be given that such event will not adversely affect the market for the Bonds. In the event that BAM is unable to make payment of principal of and interest on the Bonds when due under the Policy, the Bonds will be payable solely from Net Taxes and amounts held in certain funds and accounts established under the Indenture, as described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The long-term rating on the Bonds is dependent in part on the financial strength of BAM and its claims-paying ability. BAM’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. If the long-term ratings of BAM are lowered, such event could adversely affect the market for the Bonds. See the caption “RATINGS.”

Neither the District nor the Underwriter has made an independent investigation of the claims-paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength of BAM is being made by the District or the Underwriter in this Official Statement. Therefore, when making an investment decision with respect to the Bonds, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds, assuming that the Policy is not available for that purpose, and the claims-paying ability of BAM through final maturity of the Bonds.

So long as the Policy remains in effect and BAM is not in default of its obligations thereunder, BAM has certain notice, consent and other rights under the Indenture and will have the right to control all remedies for default under the Indenture and will not be required to obtain the consent of the Owners with respect to the exercise of remedies. See Appendix D.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain 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 the caption “CONTINUING DISCLOSURE” and Appendix E. Any failure to provide annual financial information, if required, does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Proposition 218**

An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996, general election. The Initiative added Articles XIII C and XIII D to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Significant provisions of the Initiative have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of the

Initiative. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

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

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

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

It may be possible, however, for voters of the District or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District to less than an amount projected to equal to 110% of annual debt service each year on the Outstanding Bonds plus the Administrative Expense Requirement. In connection with the foregoing covenant, the District has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District also has covenanted that, in the event that an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

### **Ballot Initiatives and Legislative Measures**

The Initiative was adopted pursuant to a measure that qualified for the ballot pursuant to the State's Constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by State voters or

legislation enacted by the State Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the City, or local districts to increase revenues or appropriations.

### **Loss of Tax Exemption**

As discussed under the caption “TAX EXEMPTION,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of acts or omissions of the District or the City in violation of certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”) and the covenants of the Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Indenture. See the caption “THE BONDS—Selection of Bonds for Redemption.”

Pending or 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 Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect 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, as to which Bond Counsel expresses no opinion.

### **IRS Audit of Tax-Exempt Bond Issues**

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

### **Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditors’ rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the District, may become subject to the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a



significant and legitimate public purpose and the limitations on remedies against governmental entities in the State. See the captions “—Bankruptcy and Foreclosure” and “—FDIC/Federal Government Interests in Properties.”

### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement, dated as of June 1, 2015 (the “Disclosure Agreement”), by and between the District and Special District Financing & Administration LLC, as disclosure dissemination agent, the District has agreed to provide, or cause to be provided, to EMMA, on an annual basis certain financial information and operating data concerning the District. The District has further agreed to provide notice to EMMA of certain listed events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission. See Appendix E for a description of the specific nature of the annual reports to be filed by the District and notices of listed events to be provided by the District.

The continuing disclosure undertaking (the “Undertaking”) for the City of Escondido Reassessment District No. 98-1 (Rancho San Pasqual) Limited Obligation Refunding Bonds (the “1998 Bonds”) requires the filing of audited financial statements of the City each year. The Undertaking also requires the filing of unaudited financial statements if audited financial statements are not available, but only in a format similar to financial statements contained in the official statement for the 1998 Bonds. The City filed its audited financial statements after the date required by the Undertaking for each of the last five years. The annual reports for the 1998 Bonds, which were timely filed, noted that the audited financial statements would be filed when available. Such annual reports further noted that unaudited financial statements were not being filed because the Undertaking only requires the filing of unaudited financial statements in a format similar to the financial statements contained in the official statement for the 1998 Bonds, while the City’s financial statements were not included in the official statement for the 1998 Bonds.

Except as disclosed in the prior paragraph, the District and the City have not in the past five years failed to comply with any previous continuing disclosure undertaking in any material respect.

### **TAX EXEMPTION**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner’s basis in the applicable Bond. The amount of original issue discount that accrues to the Beneficial Owner of the Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of 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 of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT

STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Although Bond Counsel has rendered an opinion that interest on the Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

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

The proposed form of Bond Counsel's opinion with respect to the Bonds is attached as Appendix B.

### **LEGAL OPINION**

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, approving the validity of the Bonds in substantially the form set forth as Appendix B will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the City and the District by Jeffrey Epp, Esquire, City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Best Best & Krieger LLP, San Diego, California and for BAM by its counsel.

### **ABSENCE OF LITIGATION**

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

### **RATINGS**

S&P is expected to assign the Bonds the rating of "AA" based upon the delivery of the Policy and the rating of "BBB" notwithstanding the delivery of the Policy. There is no assurance that the credit rating given to the Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

The District makes no representation as to BAM's creditworthiness and no representation that BAM's credit rating will be maintained in the future. S&P has previously taken action to downgrade the ratings of certain municipal bond insurers and has published various releases outlining the processes that S&P intends to follow in evaluating the ratings of financial guarantors. For some financial guarantors, the result of such evaluations could be a rating affirmation, a change in rating outlook, a review for downgrade or a downgrade.

Potential investors are directed to S&P for additional information on S&P's evaluations of the financial guaranty industry and individual financial guarantors, including BAM. See the caption "BOND INSURANCE" for further information relating to BAM.

### **UNDERWRITING**

The Bonds are being purchased by the Underwriter at a price of \$\_\_\_\_\_ (being the aggregate principal amount thereof, plus/less net original issue discount/premium of \$\_\_\_\_\_, and less Underwriter's discount of \$\_\_\_\_\_). The purchase contract relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside front cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

### **FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel, Best Best & Krieger LLP, as counsel to the Underwriter, the Fiscal Agent and the Escrow Agent are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

### **NEW LEGISLATION**

The District is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

### **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact.

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The execution and delivery of this Official Statement by the City Manager of the City has been duly authorized by the City Council of the City, acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF  
THE CITY OF ESCONDIDO (EUREKA RANCH)

By: \_\_\_\_\_  
City Manager of the City of Escondido, which is acting  
in its capacity as the legislative body of Community  
Facilities District No. 2006-01 of the City of Escondido  
(Eureka Ranch)

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## **APPENDIX A**

### **RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX**

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## **RATE AND METHOD OF APPORTIONMENT**

### **CITY OF ESCONDIDO COMMUNITY FACILITIES DISTRICT NO. 2006-01 (EUREKA RANCH)**

#### **FIRST AMENDED RATE AND METHOD OF APPORTIONMENT**

A special tax as hereinafter defined shall be levied on and collected for City of Escondido Community Facilities District No. 2006-01 (Eureka Ranch) ("CFD No. 2006-01") each Fiscal Year commencing in Fiscal Year 2007-2008, in an amount determined by the City Council of the City of Escondido through the application of the appropriate Special Tax for "Developed Property," "Undeveloped Property," "Provisional Property," and "Taxable Public Property" as described below. All of the real property in CFD No. 2006-01, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

#### **A. DEFINITIONS**

The terms hereinafter set forth have the following meanings:

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

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

**"Administrative Expenses"** means any actual ordinary and necessary expense of the City of Escondido, or designee thereof or both, to carry out the administration of CFD No. 2006-01 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes including the expenses of collecting delinquencies, the administration of Bonds, the payment of a proportional share of salaries and benefits of any City employee whose duties are directly related to the administration of CFD No. 2006-01, fees and expenses for counsel, audits, or other amounts needed to pay rebate to the federal government with respect to the Bonds, costs related to complying with continuing disclosure requirements, costs associated with responding to public inquiries regarding CFD No. 2006-01 or the Bonds, and costs otherwise incurred in order to carry out the authorized purposes of CFD No. 2006-01.

**"Assessor's Parcel"** means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel number within the boundaries of CFD No. 2006-01.

**"Assessor's Parcel Map"** means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

**"Assigned Special Tax"** means the annual Special Tax described in Section D below.

**"Backup Special Tax"** means the Special Tax described in Section E below.

**"Base Year"** means Fiscal Year ending June 30, 2008.

**"Bonds"** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which the Special Tax has been pledged.

**"Building Permit"** means a permit for new construction for a residential dwelling or non-residential structure. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of retaining walls, utility improvements, or other such improvements not intended for human habitation.

**"Building Square Footage"** or **"BSF"** means the square footage of assessable internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the Building Permit for such Assessor's Parcel.

**"Buildout"** means that all expected Building Permits have been issued within CFD No. 2006-01, as reasonably determined by the CFD Administrator.

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

**"Certificate of Occupancy"** means a certificate issued by the City that authorizes the actual occupancy of a dwelling unit for habitation by one or more residents.

**"CFD Administrator"** means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes for CFD No. 2006-01.

**"CFD No. 2006-01"** means the City of Escondido Community Facilities District No. 2006-01 (Eureka Ranch) established by the City under the Act.

**"City"** means the City of Escondido.

**"City Council"** means the City Council of the City, acting as the Legislative Body of CFD No. 2006-01, or its designee.

**"County"** means the County of San Diego.

**"Developed Property"** means all Assessor's Parcels within CFD No. 2006-01 for which Building Permits were issued on or before March 1 preceding the Fiscal Year for which Special Taxes are being levied, provided that a Final Map for such Assessor's Parcels was created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the CFD Administrator.

**"Exempt Property"** means all Assessor's Parcels within CFD No. 2006-01 designated as being exempt from the Special Taxes as determined in Section J.

**"Facilities"** means those public facilities authorized to be funded by CFD No. 2006-01 as set forth in the formation documents for CFD No. 2006-01.

**“Final Map”** means a subdivision of property evidenced by the recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) or the recordation of a condominium plan pursuant to California Civil Code 1352 that creates individual Lots for which Building Permits may be issued without further subdivision.

**“Fiscal Year”** means the period commencing on July 1 of any year and ending the following June 30.

**“Indenture”** means the indenture, fiscal agent agreement, trust 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 Type”** means any of the land use types listed in Table 1 below.

**“Lot”** means an individual legal lot created by a Final Map for which a Building Permit may be or has been issued.

**“Maximum Special Tax”** means the maximum Special Tax determined in accordance with Section C, which can be levied by CFD No. 2006-01 in any Fiscal Year on an Assessor’s Parcel of Taxable Property within CFD No. 2006-01.

**“Non-Residential Property”** means all Assessors’ Parcels of Developed Property for which a Building Permit was issued for any type of non-residential use.

**“Partial Prepayment Amount”** means the amount required to prepay a portion of the Special Tax obligation for an Assessor’s Parcel, as described in Section H.

**“Prepayment Amount”** means the amount required to prepay the Special Tax obligation in full for an Assessor’s Parcel, as described in Section G.

**“Proportionately”** means, for Developed Property, the ratio of the actual Special Tax levied on Developed Property to the Assigned Special Tax for Developed Property is equal for all Assessor’s Parcels of Developed Property, or where the Backup Special Tax is being levied, the ratio of the actual Special Tax levied on Developed Property to the Backup Special Tax for Developed Property is equal for all Assessor’s Parcels of Developed Property subject to the Backup Special Tax. For Undeveloped Property, it means that the ratio of the actual Special Tax levied per Acre to the Assigned Special Tax per Acre for Undeveloped Property is equal for all Assessor’s Parcels of Undeveloped Property. For Provisional Property, it means that the ratio of the actual Special Tax levied per Acre to the Assigned Special Tax per Acre for Undeveloped Property is equal for all Assessor’s Parcels of Provisional Property. For Taxable Public Property, it means that the ratio of the actual Special Tax levied per Acre to the Assigned Special Tax per Acre for Undeveloped Property is equal for all Assessor’s Parcels of Taxable Public Property.

**“Provisional Property”** means all Assessors’ Parcels within CFD No. 2006-01 identified under Section J, excluding Public Property, that are not classified as Exempt Property because such classification would reduce the sum of all Taxable Property to less than 68.367 Acres.

**“Public Property”** means any property within the boundaries of CFD No. 2006-01 that is owned by or irrecoverably dedicated to the City, the federal government, the State of California, the County, CFD No. 2006-01, or other public agency.

**“Residential Property”** means all Assessors’ Parcels of Developed Property within CFD No. 2006-01 for which a Building Permit has been issued for purposes of constructing one or more residential dwelling Units.

**“Special Tax”** means the special tax authorized to be levied by CFD No. 2006-01 pursuant to the Act to fund the Special Tax Requirement.

**“Special Tax Requirement”** means the amount required in any Fiscal Year for CFD No. 2006-01 to fund: (i) the debt service or the periodic costs on all outstanding Bonds due in the Calendar Year that commences in such Fiscal Year, (ii) Administrative Expenses, (iii) any amount required to establish or replenish any reserve funds established in association with the Bonds, (iv) any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in which the tax will be collected, and (v) the acquisition or construction of eligible Facilities, provided that the inclusion of such amount does not cause an increase in the levy of the Special Tax on Undeveloped Property, less (vi) any amount available to pay debt service or other periodic costs on the Bonds as reasonably determined by the CFD Administrator pursuant to the Indenture.

**“Tax Class”** means any of the classes listed in Table 1 below.

**“Taxable Property”** means all Assessors’ Parcels within CFD No. 2006-01 that are not Exempt Property.

**“Taxable Public Property”** means all Assessors’ Parcels within CFD No. 2006-01 defined as Public Property that are not classified as Exempt Property under Section J because such classification would reduce the sum of all Taxable Property to less than 68.367 Acres.

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

**“Undeveloped Property”** means all Assessors’ Parcels within CFD No. 2006-01 of Taxable Property, which are not classified as Developed Property, Taxable Public Property, or Provisional Property.

**“Unit”** means any residence in which a person or persons may live, which is not considered to be used for non-residential use.

## **B. CLASSIFICATION OF ASSESSOR’S PARCELS**

Each Fiscal Year, beginning with Fiscal Year 2007-2008, each Assessor’s Parcel within CFD No. 2006-01 shall be classified as Taxable Property or Exempt Property. In addition, each Fiscal Year, each Assessor’s Parcel of Taxable Property shall be further classified as Developed Property, Undeveloped Property, Provisional Property, or Taxable Public Property. Lastly, each Fiscal Year, each Assessor’s Parcel of Developed Property shall further be classified as Residential Property or Non-Residential Property.

## **C. MAXIMUM ANNUAL SPECIAL TAXES**

### **1. Developed Property**

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property in any Fiscal Year shall be the amount determined by the greater of (i) the application of the Assigned Special Tax set forth in Section D.1 or (ii) the application of the Backup Special Tax set forth in Section E.

**2. Undeveloped Property**

The Maximum Special Tax for each Assessor's Parcel classified as Undeveloped Property shall be the amount determined by application of the Assigned Special Tax set forth in Section D.2.

**3. Multiple Tax Classes**

In some instances an Assessor's Parcel may contain more than one Tax Class. The Maximum Special Tax levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax that can be imposed on all Tax Classes located on that Assessor's Parcel.

**D. ASSIGNED SPECIAL TAXES**

**1. Developed Property**

Each Fiscal Year commencing in Fiscal Year 2007-2008, each Assessor's Parcel of Developed Property within CFD No. 2006-01 shall be subject to an Assigned Special Tax. The Assigned Special Tax for each Tax Class of Developed Property is shown in Table 1.

**TABLE 1  
ASSIGNED SPECIAL TAX RATES**

<i>Tax Class</i>	<i>Land Use Type</i>	<i>Building Square Footage</i>	<i>Assigned Special Tax</i>
1	Residential Property	> 3,600	\$1.214 per BSF
2	Residential Property	3,251 – 3,600	\$1.275 per BSF
3	Residential Property	2,851 – 3,250	\$1.350 per BSF
4	Residential Property	2,551 – 2,850	\$1.407 per BSF
5	Residential Property	≤2,550	\$1.526 per BSF
6	Non-Residential Property	NA	\$20,750 per Acre

**2. Undeveloped Property**

Each Fiscal Year commencing in Fiscal Year 2007-2008, each Assessor's Parcel of Undeveloped Property of CFD No. 2006-01 shall be subject to an Assigned Special Tax. The Assigned Special Tax for an Assessor's Parcel classified as Undeveloped Property shall be \$20,750 per Acre.

**E. BACKUP SPECIAL TAX**

Each Fiscal Year commencing in Fiscal Year 2007-2008, each Assessor's Parcel of Developed Property shall be subject to a Backup Special Tax. The Backup Special Tax for Developed Property within a Final Map shall be the amount per Lot calculated according to the following formula:

$$B = \frac{R \times A}{L}$$

The terms above have the following meanings:

- B = Backup Special Tax per Lot.  
R = The Assigned Special Tax per Acre for Undeveloped Property.  
A = Acreage of all Lots in such Final Map.  
L = Total Lots within such Final Map.

**TABLE 2**  
**Backup Special Tax**

<i>Final Map</i>	<i>Total Lot Acreage</i>	<i>Lots within Final Map</i>	<i>Backup Special Tax</i>
15274	16.334	80	\$4,236.63 per Lot
15275	6.337	43	\$3,057.97 per Lot
15312	13.197	80	\$3,422.97 per Lot
15354	16.537	73	\$4,700.59 per Lot
15367	15.962	64	\$5,175.18 per Lot

If the Final Map used to calculate the Backup Special Tax is subsequently changed or modified by a new or amended recorded Final Map, and only if the CFD Administrator determines that such change or modification results in a decrease or increase in the number of Lots within such Final Map, then for all subsequent Fiscal Years, the Backup Special Tax applicable to such Assessors' Parcels modified by the new or amended map shall be recalculated through the following steps:

- 1 Sum the Backup Special Tax initially calculated for the original Lot(s) identified at the time of the original Final Map that will be changed or modified by the new or amended Final Map.
- 2 The Backup Special Tax in Step 1 above shall be apportioned by Acreage to the new Lot(s) created, and levied against the applicable corresponding Assessor's Parcel(s).

This procedure shall govern all new or amended map recordings. The Backup Special Tax for an Assessor's Parcel of Developed Property within the new or amended recorded Final Map that is not modified shall not be changed.

**F. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

1. Commencing Fiscal Year 2007-2008 and for each subsequent Fiscal Year until terminated, the City Council shall levy Special Taxes on all Taxable Property within CFD No. 2006-01 until the total amount of Special Taxes levied equals the Special Tax Requirement in accordance with the following steps:

Step One: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property within CFD No. 2006-01 up to 100% of the applicable Assigned Special Tax.

Step Two: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property of CFD No. 2006-01, up to 100% of the Assigned Special Tax for Undeveloped Property applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.



Step Three: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then for each Assessor's Parcel of Developed Property of CFD No. 2006-01 whose Maximum Special Tax is equal to the Backup Special Tax, those parcels' Special Tax shall be increased Proportionately up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement.

Step Four: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Provisional Property of CFD No. 2006-01 up to 100% of the Assigned Special Tax for Undeveloped Property as needed to satisfy the Special Tax Requirement.

Step Five: If additional monies are needed to satisfy the Special Tax Requirement after all previous steps have occurred, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property of CFD No. 2006-01 at a rate up to 100% of the Assigned Special Tax for Undeveloped Property as needed to satisfy the Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Developed Property classified as Residential Property for which a Certificate of Occupancy has been issued be increased by more than ten percent (10%) per Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2006-01.

#### **G. PREPAYMENT OF SPECIAL TAX**

The following definition applies to this Section G:

**"Facilities Costs"** means either \$17.5 million, or such lower number as shall be determined either by (a) the CFD Administrator as sufficient to finance the Facilities, or (b) the City Council concurrently with a covenant that it will not issue any more CFD No. 2006-01 Bonds (except refunding bonds) to be secured by Special Taxes levied under this Rate and Method of Apportionment.

**"Future Facilities Costs"** means the Facilities Costs minus that (a) portion of the Facilities Costs previously funded (i) from the proceeds of all previously issued Bonds, (ii) from interest earnings on the Improvement Fund actually earned prior to the date of prepayment and (iii) directly from Special Tax revenues and (b) amount of the proceeds of all previously issued Bonds then on deposit in the Improvement Fund.

**"Improvement Fund"** means an account specifically identified in the Indenture to hold funds, which are currently available for expenditure to acquire or construct the Facilities.

**"Outstanding Bonds"** means all previously issued Bonds secured by the levy of Special Taxes which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with the proceeds of prior prepayments of the Maximum Special Tax.

The Special Tax obligation of an Assessor's Parcel of Developed Property, or Undeveloped Property for which a Building Permit has been issued, or an Assessor's Parcel classified as Provisional Property or Taxable Public Property pursuant to Section J may be prepaid in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time that the Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the City with written notice of intent to prepay, and within 10 business days of receipt of such notice, the City shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by CFD No. 2006-01 in calculating the proper amount of a prepayment. Within 30 business days of receipt of such non-refundable deposit, the City shall notify such owner of the prepayment amount of such Assessor's Parcel. Prepayment must be made not less than 60 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given by the Trustee pursuant to the Indenture.

The Prepayment Amount for each applicable Assessor's Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance
plus	Administrative Fee
less	Reserve Fund Credit
<u>less</u>	<u>Capitalized Interest Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and the Backup Special Tax applicable to such Assessor's Parcel. For Assessor's Parcels of Undeveloped Property, for which a Building Permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit which has already been issued for that Assessor's Parcel. For Assessor's Parcels classified as Provisional Property, Taxable Public Property, or Undeveloped Property for which a Building Permit has not been issued pursuant to Section J, compute the Special Tax for such Assessor's Parcels using the Assigned Special Tax for Undeveloped Property.
2. (a) For each Assessor's Parcel of Developed Property, Undeveloped Property, Provisional Property, or Taxable Public Property to be prepaid, divide the Assigned Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Special Tax applicable to all Assessor's Parcels of Taxable Property assuming Buildout, excluding any Assessors Parcels for which the Special Tax obligation has been previously prepaid, and (b) for Developed Property, or Undeveloped Property for which a Building Permit has been issued, divide the Backup Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Special Tax applicable to all Assessor's Parcels of Developed Property assuming Buildout, excluding any Assessors Parcels for which the Special Tax obligation has been previously prepaid.
3. For Assessor's Parcels classified as Developed Property, or Undeveloped Property for which a Building Permit has been issued, multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by Outstanding Bonds. For Assessor's Parcels classified as Undeveloped Property for which a Building Permit has not been issued, Provisional Property, or Taxable Property, multiply the quotient computed pursuant to paragraph 2(a) by Outstanding Bonds. Each such product shall be the "Bond Redemption Amount," for such Assessor's Parcels, as applicable. Once the CFD Administrator confirms Buildout, the quotient calculated in paragraph 2(a) would be the only quotient used to determine the Bond Redemption Amount of an Assessor's Parcel intending to prepay their Special Tax obligation.



4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds on the next available redemption date to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. If all the Bonds authorized to be issued by CFD No. 2006-01 have not been issued, then compute the Future Facilities Costs.
6. (i) For Assessor's Parcels classified as Developed Property, or Undeveloped Property for which a Building Permit has been issued, multiply the larger quotient computed pursuant to paragraph 2(a) and 2(b), by the amount if any, determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid by such Assessor's Parcel; and (ii) for Assessor's Parcels classified as Undeveloped Property for which a Building Permit has not been issued, Provisional Property, or Taxable Property, multiply the quotient computed pursuant to paragraph 2(a), by the amount if any, determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid by such Assessor's Parcel. Each such product shall be the "Future Facilities Amount". Once the CFD Administrator confirms Buildout, the quotient calculated in paragraph 2(a) would be the only quotient used to determine the Future Facilities Amount of an Assessor's Parcel intending to prepay their Special Tax obligation.
7. Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds, which, depending on the Indenture, may be as early as the next interest payment date.
8. Determine the amount of Special Taxes levied on the Assessor's Parcel in the current Fiscal Year that have not yet been paid.
9. Compute the amount the CFD Administrator reasonably expects to be derived from the reinvestment of the Prepayment Amount less Future Facilities Amount and Administrative Fee (defined in paragraph 11) until the earliest call date for the Outstanding Bonds.
10. Sum the amounts computed pursuant to paragraphs 7 and 8 and subtract the amount computed pursuant to paragraph 9 from such sum. This difference is the "Defeasance."
11. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
12. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirement, if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the applicable reserve fund on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than \$0.

13. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to step 2 by the expected balance in the capitalized interest fund after such first interest payment (the "Capitalized Interest Credit"). For Assessor's Parcels classified as Developed Property, or Undeveloped Property for which a Building Permit has been issued, multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund or account under the Indenture after such first interest payment. For Assessor's Parcels classified as Undeveloped Property for which a Building Permit has not been issued, Provisional Property or Taxable Property, multiply the quotient computed pursuant to paragraph 2(a) by the expected balance in the capitalized interest fund or account under the Indenture after such first interest payment.
14. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, Future Facilities Amount, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit and Capitalized Interest Credit.

With respect to the Special Tax obligation that is prepaid pursuant to this Section G, the City Council shall indicate in the records of CFD No. 2006-01 that there has been a prepayment of the Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment to indicate the prepayment of the Special Tax obligation and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Special Tax shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Special Tax that may be levied on Taxable Property, net of reasonably estimated annual Administrative Expenses, shall be at least 1.10 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

#### **H. PARTIAL PREPAYMENT OF SPECIAL TAX**

The Special Tax obligation of an Assessor's Parcel of Developed Property or Undeveloped Property for which a Building Permit has been issued and will be classified as Developed Property in the next Fiscal Year may be partially prepaid, as calculated in this Section H., provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax obligation would be prepaid.

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = (P_G - A) \times F + A$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount.
- $P_G$  = the Prepayment Amount calculated according to Section G.
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Special Tax obligation.
- A = Administrative Fees calculated in Section G, step 11

With respect to any Assessor's Parcel that is partially prepaid, the City Council shall indicate in the records of CFD No. 2006-01 that there has been a partial prepayment of the Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of the Special Tax obligation, to indicate the partial prepayment of the Special Tax obligation and the partial release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Special Tax shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Special Tax that may be levied on Taxable Property after such partial prepayment, net of reasonably estimated annual Administrative Expenses, shall be at least 1.10 times the regularly scheduled annual interest and principal payments on all Bonds outstanding after such partial prepayment in each future Fiscal Year.

#### **I. TERMINATION OF SPECIAL TAX**

For each Fiscal Year that any Bonds are outstanding the Special Tax shall be levied on all Assessor's Parcels in CFD No. 2006-01 subject to Special Tax. If any delinquencies for the Special Tax remain uncollected prior to or after all Bonds are retired, the Special Tax may be levied to the extent necessary to reimburse CFD No. 2006-01 for uncollected Special Taxes, but not later than the 2046-47 Fiscal Year, at which time foreclosure proceedings will commence to collect any remaining delinquent Special Tax obligations.

#### **J. EXEMPTIONS**

The City shall classify as Exempt Property: (i) Public Property, (ii) Assessor's Parcels which are used as places of worship and are exempt from ad valorem property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used or owned exclusively by a homeowners' association, or (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other purposes than those set forth in the easement, provided that no such classification would reduce the sum of all Taxable Property to less than 68.367 Acres within CFD No. 2006-01. Notwithstanding the above, the City Council shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 68.367 Acres within CFD No. 2006-01. Public Property that cannot be classified as Exempt Property will be classified as Taxable Public Property and subject to the levy of a Special Tax in accordance with Section F until prepaid pursuant to Section G. All other Assessor's Parcels identified within this section that cannot be classified as Exempt Property will be classified as Provisional Property and will continue to be subject to the levy of a Special Tax in accordance with Section F until prepaid pursuant to Section G.

#### **K. APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the City Council not later than twelve months after having paid the first installment of the Special Tax that is disputed. A representative(s) of CFD No. 2006-01 shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

**L. MANNER OF COLLECTION**

The annual Special Taxes shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that CFD No. 2006-01 may collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

## APPENDIX B

### FORM OF OPINION OF BOND COUNSEL

*Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

June \_\_, 2015

Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)  
c/o City of Escondido  
201 North Broadway  
Escondido, California 92025-2798

Re:     \$\_\_\_\_\_ Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)  
       Special Tax Refunding Bonds, Series 2015

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Escondido (the “City”) taken in connection with the formation of Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the “District”) and the authorization and issuance of the District’s Special Tax Refunding Bonds, Series 2015 in the aggregate principal amount of \$\_\_\_\_\_ (the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 2015-61 (the “Resolution of Issuance”), adopted by the City Council (the “City Council”) of the City on April 22, 2015, and a Bond Indenture dated as of June 1, 2015 (the “Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent. All capitalized terms not defined herein shall have the meanings set forth in the Indenture.

The Bonds are dated the date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on March 1 and September 1 of each year, commencing March 1, 2016, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture redeemable in the amounts, at the times and in the manner provided for in the Indenture.

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

1.     The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other laws affecting creditors’ rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision

thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

2. The Indenture has been duly executed and delivered by the City Council on behalf of the District. The Indenture creates a valid pledge of and the Bonds are secured by the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture. The Indenture is enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer or other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases and by limitations on remedies against public agencies in the State of California; provided, however, that we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

3. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3. above) and is exempt from State of California personal income tax.

6. The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinion expressed in paragraphs 3. and 5. above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs 3. through 6. above, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the District and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on any Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

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

Respectfully submitted,

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## APPENDIX C

### GENERAL INFORMATION CONCERNING THE CITY OF ESCONDIDO

*The following information is presented as general background data. The Bonds are payable solely from the Net Taxes as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the Bonds.*

#### Location

The City of Escondido (the “City”) is located in a long valley surrounded by coastal mountains about eighteen miles inland and thirty miles north of downtown San Diego.

The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City. In addition, the City serves as a focal point for north San Diego County (“North County”) recreation and entertainment. Interstate 15 and Highway 78 bisect the City, making the City easily accessible for regional commerce and recreation.

#### Population

The City is the largest inland city in North County with an estimated current population of 147,102. Table C-1 sets forth total population for the City, the County of San Diego (the “County”) and the State of California (the “State”).

**Table C-1**  
**City of Escondido, County of San Diego and State of California**  
**Population**

<i>January 1</i>	<i>City of Escondido</i>	<i>County of San Diego</i>	<i>State of California</i>
2010	144,008	3,091,579	37,223,900
2011	144,998	3,115,810	37,427,946
2012	145,369	3,128,749	37,668,804
2013	146,115	3,154,574	37,984,138
2014	147,102	3,194,362	38,340,074

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and State, 2001-2010, with 2000 & 2010 Census Counts and E-4 Population Estimates for Cities, Counties and State, 2011-2014 with 2010 Benchmark*, Sacramento, California.

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## Employment and Industry

Table C-2 summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2010 through 2014 in the City, the County, the State and the United States.

**Table C-2**  
**City of Escondido, County of San Diego, State of California and United States**  
**Labor Force, Employment and Unemployment Yearly Average**

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment<sup>(1)</sup></i>	<i>Civilian Unemployment<sup>(2)</sup></i>	<i>Civilian Unemployment Rate<sup>(3)</sup></i>
2010				
Escondido	73,500	65,400	8,100	11.0%
San Diego County	1,574,100	1,408,200	165,900	10.6
California	18,336,300	16,068,400	2,267,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
Escondido	73,800	66,100	7,700	10.4
San Diego County	1,582,200	1,423,500	158,700	10.0
California	18,417,900	16,249,600	2,168,300	11.8
United States	153,617,000	139,869,000	13,747,000	8.9
2012				
Escondido	74,600	67,600	6,900	9.3
San Diego County	1,599,200	1,456,300	142,800	8.9
California	18,519,000	16,589,700	1,929,300	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
2013				
Escondido	74,100	68,300	5,800	7.9
San Diego County	1,590,000	1,470,000	120,000	7.5
California	18,596,800	16,933,300	1,663,500	8.9
United States	155,389,000	143,929,000	2,130,000	7.4
2014				
Escondido	69,100	64,600	4,400	6.4
San Diego County	1,544,600	1,445,400	99,200	6.4
California	18,811,400	17,397,100	1,414,300	7.5
United States	155,922,000	146,305,000	9,617,000	6.2

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department, March 2014 Benchmark; U.S. Department of Labor, Bureau of Labor Statistics.

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Table C-3 sets forth the industry employment and the labor force estimates for the years 2010 through 2014 for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (“MSA”). Annual industry employment information is not compiled by sector for the City.

**Table C-3**  
**San Diego-Carlsbad-San Marcos MSA**  
**Industry Employment and Labor Force**  
**Annual Average**

<i>Type of Employment</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Total Farm	10,500	9,800	9,800	9,800	10,000
Total Nonfarm	1,237,100	1,247,000	1,280,500	1,317,800	1,348,000
Total Private	1,006,600	1,018,000	1,052,700	1,088,300	1,116,100
Goods Producing	148,900	149,000	151,900	156,600	160,300
Natural Resources & Mining	400	400	400	400	400
Construction	55,400	55,200	57,000	60,900	63,500
Manufacturing	93,100	93,400	94,500	95,200	96,400
Durable Goods	71,200	71,100	71,400	71,100	71,400
Nondurable Goods	21,900	22,200	23,100	24,100	24,900
Service Providing	1,088,200	1,098,000	1,128,600	1,161,200	1,187,700
Private Service Producing	857,700	869,100	900,800	931,800	955,800
Trade, Transportation & Utilities	197,400	201,000	208,000	212,400	214,800
Wholesale Trade	40,200	41,500	43,500	43,900	43,900
Retail Trade	130,700	133,400	137,200	141,300	144,200
Transportation, Warehousing & Utilities	26,500	26,100	27,300	27,200	26,800
Information	25,100	24,200	24,500	24,300	24,600
Financial Activities	67,200	67,600	70,200	71,400	70,500
Professional & Business Services	207,900	210,200	216,700	224,700	230,000
Educational & Health Services	159,600	162,800	170,500	181,100	186,900
Leisure & Hospitality	154,500	155,600	161,700	168,600	176,800
Other Services	46,100	47,700	49,200	49,300	52,300
Government	<u>230,500</u>	<u>229,000</u>	<u>227,800</u>	<u>229,500</u>	<u>231,900</u>
<b>Total All Industries</b>	<b><i>1,247,600</i></b>	<b><i>1,256,800</i></b>	<b><i>1,290,300</i></b>	<b><i>1,327,600</i></b>	<b><i>1,358,000</i></b>

Note: The “Total All Industries” data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2014 Benchmark*.

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## Major Employers

Table C-4 sets forth the principal employers in the City as of June 30, 2014.

**Table C-4**  
**City of Escondido**  
**Principal Employers**

<i><b>Employer</b></i>	<i><b>Number of Employees</b></i>
Palomar Medical Center	3,290
Escondido Union School District	1,804
Welk Group Inc.	1,200
San Diego Wild Animal Park	1,100
City of Escondido	1,082
Escondido Union High School District	861
Vons Grocery Stores	360
Home Depot	350
Nordstrom Inc.	290
Palomar Community College District	211

Source: City of Escondido, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2014*.

## Commercial Activity

Trade outlet and retail sales activity are summarized in Tables C-5 and C-6 based on reports of the State Board of Equalization.

**Table C-5**  
**City of Escondido**  
**Total Taxable Transactions and Number of Sales Permits**  
**2008 through 2013<sup>(1)</sup>**

<i><b>Calendar Year</b></i>	<i><b>Retail Sales<sup>(2)</sup></b></i>	<i><b>Retail Sales Permits</b></i>	<i><b>Total Taxable Transactions<sup>(2)</sup></b></i>	<i><b>Issued Sales Permits</b></i>
2009	\$1,611,325	2,312	\$2,040,596	3,576
2010	1,728,265	2,414	2,132,167	3,706
2011	1,940,690	2,549	2,403,036	3,830
2012	2,170,967	2,621	2,649,357	3,888
2013	2,257,769	2,618	2,762,499	3,849

<sup>(1)</sup> Reflects latest information available.

<sup>(2)</sup> Dollar amounts are in thousands.

Source: California State Board of Equalization.

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**Table C-6**  
**City of Escondido**  
**Taxable Retail Sales**  
**2009 through 2013<sup>(1)(2)</sup>**

<i>Type of Business</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Motor Vehicle & Parts Dealers	\$ 481,614	\$ 529,178	\$ 643,515	\$ 825,386	\$ 876,343
Home Furnishings & Appliance Stores	30,602	33,286	45,975	48,489	47,669
Building Materials & Garden Equipment & Supplies	157,370	167,646	168,705	178,926	191,660
Food & Beverage Stores	120,048	120,970	126,382	126,104	128,277
Gasoline Stations	218,496	254,285	306,278	318,773	300,622
Clothing & Clothing Accessories Stores	160,564	170,763	183,669	187,747	178,954
General Merchandise Stores	133,896	134,120	136,050	140,874	164,974
Food Services & Drinking Places	162,468	169,879	179,404	192,772	203,456
Other Retail Group	<u>146,267</u>	<u>148,138</u>	<u>150,710</u>	<u>151,896</u>	<u>165,812</u>
Retail Stores Totals	1,611,325	1,728,265	1,940,690	2,170,967	2,257,769
All Other Outlets	<u>429,271</u>	<u>403,902</u>	<u>462,346</u>	<u>478,390</u>	<u>504,730</u>
Total All Outlets	<u>\$ 2,040,596</u>	<u>\$ 2,132,167</u>	<u>\$ 2,403,036</u>	<u>\$ 2,649,357</u>	<u>\$ 2,762,499</u>

<sup>(1)</sup> Reflects latest information available.

<sup>(2)</sup> Dollar amounts are in thousands.

Source: California State Board of Equalization.

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## Building Activity

Table C-7 summarizes building activity in the City from 2009 through 2013, reflecting the latest available information.

**Table C-7**  
**City of Escondido**  
**Building Permit Valuations**  
**2009 through 2013**

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
<u>Residential</u>					
Single Family	\$31,276,919	\$ 21,709,519	\$ 8,852,193	\$ 1,081,371	\$ 7,080,327
Multi-Family	4,625,512	5,166,958	12,919,403	2,549,914	1,296,850
Alteration/Additions	<u>3,743,437</u>	<u>3,032,618</u>	<u>3,585,270</u>	<u>4,339,290</u>	<u>2,861,611</u>
Total	\$39,645,868	\$29,909,095	\$25,356,866	\$7,970,575	\$11,238,788
<u>Non-Residential</u>					
New Commercial	\$ 1,124,405	\$ 3,480,411	\$ 2,303,428	\$ 306,208	\$6,156,693
New Industry	535,136	1,362,179	0	2,742,479	0
Other <sup>(1)</sup>	3,176,047	1,914,091	2,279,369	1,471,458	1,552,352
Alteration/Additions	<u>9,991,810</u>	<u>15,334,778</u>	<u>8,984,967</u>	<u>15,613,473</u>	<u>15,469,629</u>
Total	\$14,827,398	\$22,091,459	\$13,567,764	\$20,133,618	\$23,178,674
<u>Total All Industry</u>	<u>\$54,473,266</u>	<u>\$52,000,554</u>	<u>\$38,924,630</u>	<u>\$28,104,193</u>	<u>\$34,417,462</u>
<u>Total</u>					
Single Family Units	114	84	32	6	57
Multi-Family Units	<u>63</u>	<u>55</u>	<u>112</u>	<u>36</u>	<u>11</u>
Total	177	139	144	42	68

<sup>(1)</sup> Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: California Homebuilding Foundation/Construction Industry Research Board.

## Transportation

Interstate 15 serves the City, extending from San Diego through to Riverside and Las Vegas, Nevada. State Highway 78 runs west to east from the coastline between Oceanside and Carlsbad through the City to Interstate 10 and is one of the main east/west corridors through the County.

The Santa Fe Railroad has a freight service line serving the City, and Amtrak provides passenger service from Oceanside on the San Diego/Los Angeles line. The Sprinter provides commuter rail service from the City to Oceanside.

Two airports serve North County. San Diego International Airport (Lindbergh Field), 35 minutes from the City, provides access to fourteen major national and international commercial airlines and fourteen freight forwarding companies. The smaller McClellan-Palomar Airport, 15 minutes from downtown of the City, offers commercial service to Los Angeles, Las Vegas, Nevada and Phoenix, Arizona. McClellan-Palomar also offers complete private aircraft service.

## Education

The City has 16 elementary schools (plus eight private schools), five middle schools, and three public high schools (plus three private schools). In addition, the City has a charter elementary school, middle school and night school.

The largest university in the County is San Diego State University, part of the California State University system. California State University at San Marcos is the closest university to the City. The University of California, San Diego in La Jolla is one of nine campuses of the University of California system. The statewide Community College System has nine colleges in San Diego County, including a campus of Palomar Community College in the City.

Private universities in San Diego County include United States International University, the University of San Diego, Point Loma Nazarene University and National University.

## **Recreation and Culture**

The City is a 60 minute drive from Cleveland National Forest and a 30 minute drive from the Pacific Ocean and all of the outdoor activities associated with these areas. Thousands of acres of nearby recreation areas provide opportunities for picnicking, boating, fishing, tennis, softball and swimming. Over 25 golf courses are located within a 20 minute drive of the City.

Spectator sports fans can choose among professional football and baseball at nearby Qualcomm Stadium and Petco Park and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an \$81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a summary of certain definitions and provisions of the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.*

#### DEFINITIONS

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

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

“Administrative Expense Requirement” means the amount of \$47,803.70, which amount will escalate by 2% in each Bond Year, commencing in the Bond Year beginning on September 2, 2015, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District.

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Fiscal Agent and any Special Tax Consultant to the District, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Indenture.

“Alternative Penalty Account” means the account by that name in the Rebate Fund created pursuant to the Indenture.

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

“Authorized Investments” means any of the following investments, if and to the extent the same are at the time legal for investment of the District’s funds (provided that the Fiscal Agent is entitled to rely upon investment direction from the District as a conclusive certification to the Fiscal Agent that such investment is authorized under the laws of the State): (a) Federal Securities; (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided that 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): - U.S. Export-Import Bank - Direct obligations or fully guaranteed certificates of beneficial ownership; - Farmers Home Administration Certificates of beneficial ownership; - General Service Administration Participation Certificates; - Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA - guaranteed mortgage-backed bonds, GNMA - guaranteed pass through obligations; - U.S. Maritime Administration Guaranteed Title XI financing; - U.S. Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds; - Federal Housing Administration Debentures; (c) Senior debt obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; (d) 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 “AAM-G” or better, including such funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services or for which the Fiscal Agent or an affiliate thereof serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (I) the Fiscal Agent or an affiliate thereof receives fees from funds for services rendered; (II) the Fiscal Agent collects

fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds; and (III) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Fiscal Agent or an affiliate thereof; (e) Certificates of deposit secured at all times by collateral described in clauses (a) and (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party or the Fiscal Agent and the Fiscal Agent on behalf of the Bond Owners must have a perfected first security interest in the collateral; (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by Federal Deposit Insurance Corporation; (g) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks, which may include the Fiscal Agent and its affiliates, which have a rating on their short term certificates of deposit on the date of purchase of "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (i.e., ratings on holding companies are not considered as the rating of the bank); (h) Commercial Paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by Standard & Poor's; (i) Repurchase agreements with financial institutions insured by the Federal Deposit Insurance Corporation; or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or a bank or other financial institution rated in the top two rating categories by one or more Rating Agencies; provided that: (i) the over-collateralization is at 102%, computed weekly, consisting of such securities as described in clauses (a) through (c); (ii) a third party custodian, the Fiscal Agent or the Federal Reserve Bank has possession of such obligations; (iii) the Fiscal Agent has perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent to liquidate the collateral; (j) County or State-administered pooled investment funds in which the District is statutorily permitted or required to invest to the extent that any amounts are deposited by the Fiscal Agent into such funds and provided that the Fiscal Agent has direct access to such fund; and (k) The local agency investment pool maintained by the San Diego County Treasurer's Money Market Investment Pool to the extent that deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

"Bond Counsel" means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Bond Fund" means the fund by that name created pursuant to the Indenture.

"Bond Insurer" means Build America Mutual Assurance Company, or any successor thereto.

"Bond Register" means the books which the Fiscal Agent keeps or causes to be kept on which the registration and transfer of the Bonds and any Parity Bonds is recorded.

"Bond Year" means the 12 month period commencing on September 2 of each year and ending on September 1 of the following year, and for the first Bond Year commencing on the Delivery Date and ending on September 1, 2015.

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

"Bonds" means the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Refunding Bonds, Series 2015 issued in the original principal amount of \$\_\_\_\_\_.

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

"Certificate of an Authorized Representative" means a written certificate executed by the Mayor of the City, the City Manager of the City, the Director of Administrative Services of the City, the City Clerk, or his or her written designee.

“City” means the City of Escondido, California.

“Code” means the Internal Revenue Code of 1986, together with any amendments thereto.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of June 1, 2015, by and between the District and Special District Financing & Administration, as dissemination agent thereunder.

“Corporate Trust Office” means the corporate trust office of the Fiscal Agent at 400 South Hope Street, Suite 400, Los Angeles, California 90071, Attention: Corporate Trust Services, Ref: City of Escondido, or such other office designated by the Fiscal Agent from time to time.

“Costs of Issuance Fund” means the fund by that name created pursuant to the Indenture.

“County” means the County of San Diego, California.

“Debt Service Account” means the account by that name in the Bond Fund created pursuant to the Indenture.

“Delivery Date” means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

“Depository” means the securities depository acting as Depository under the Indenture.

“Dissemination Agent” means Special District Financing & Administration, and any successor thereto.

“District” means Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) established pursuant to the Act and the Resolution of Formation.

“Federal Securities” means any of the following: (1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in clause (2) below); (2) Direct 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; or (3) Obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America; provided that, so long as the Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, Federal Securities will be limited to noncallable, direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, or other investments approved by the Bond Insurer.

“Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., and any successor thereto.

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

“Gross Taxes” means the amount of all Special Taxes received by the District from the Treasurer, together with the net proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, penalties and interest received by the District in connection with the delinquency of such Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure after payment of administrative costs and attorneys’ fees payable from such proceeds to the extent not previously paid as an Administrative Expense.

“Indenture” means the Bond Indenture, dated as of June 1, 2015, by and between the Fiscal Agent and the District, together with any Supplemental Indenture approved pursuant thereto.

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

or each of whom: (a) is in fact independent and not under the domination of the District or the City; (b) does not have any substantial interest, direct or indirect, in the District or the City; and (c) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District or the City.

“Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2016; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

“Late Payment Rate” has the meaning set forth under the caption “CREATION OF FUNDS AND APPLICATION OF PROCEEDS OF NET TAXES—Reserve Account of the Bond Fund.”

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year: (1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and (2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

“Moody’s” means “Moody’s Investor’s Service, Inc., or any successor thereto.

“Net Taxes” means Gross Taxes minus amounts set aside to pay the Administrative Expense Requirement.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Ordinance” means, Resolution and Ordinance No. 2006-32 adopted by the legislative body of the District on September 27, 2006 providing for the levying of the Special Tax.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except: (1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture; (2) Bonds and Parity Bonds for payment or redemption of which moneys have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption must be given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and (3) Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture. Upon request of the Fiscal Agent, the District will specify in a Certificate of an Authorized Representative those Bonds that are not Outstanding and the Fiscal Agent may conclusively rely on such Certificate.

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

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds the Bonds or Parity Bonds as a securities depository.

“Policy” means that certain Municipal Bond Insurance Policy issued by the Bond Insurer that guarantees the scheduled payment of principal of and interest on the Bonds when due.

“Policy Costs” has the meaning set forth under the caption “CREATION OF FUNDS AND APPLICATION OF PROCEEDS OF NET TAXES—Reserve Account of the Bond Fund.”

“Rating Agency” means Moody’s and Standard & Poor’s, or both, as the context requires.

“Rate and Method of Apportionment” means that certain First Amended Rate and Method of Apportionment of Special Tax approved by the City Council of the City, acting as the legislative body of the District, as it may be amended from time to time in accordance with the Act and the Indenture.

“Rebatable Arbitrage” means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the Bonds) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Account” means the account by that name in the Rebate Fund created pursuant to the Indenture.

“Rebate Fund” means the fund by that name created pursuant to the Indenture.

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

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

“Redemption Account” means the account by that name in the Bond Fund created pursuant to the Indenture.

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

“Representation Letter” means the Blanket Letter of Representations from the District to the Depository as described in the Indenture.

“Reserve Account” means the account by that name in the Bond Fund created pursuant to the Indenture.

“Reserve Policy” has the meaning set forth under the caption “CREATION OF FUNDS AND APPLICATION OF PROCEEDS OF NET TAXES—Reserve Account of the Bond Fund.”

“Reserve Requirement” means that amount as of any date of calculation equal to the lesser of: (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any; (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds.

“Resolution of Formation” means, Resolution No. 2006-227 adopted by the City Council of the City on September 20, 2006, pursuant to which the City formed the District.

“Resolution of Issuance” means Resolution No. 2015-61 duly adopted by the City Council of the City, acting in its capacity as the legislative body of the District, on April 22, 2015, approving the Indenture, and any supplemental bond indenture approved pursuant thereto.

“Sinking Fund Payment” means any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

“Special Tax Prepayments” means any amounts paid by the District to the Fiscal Agent and designated by the District as a prepayment of Special Taxes for one or more parcels in of the District made in accordance with the Rate and Method of Apportionment.

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

“Special Tax Fund” means the fund by that name created pursuant to the Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

“State” means the State of California.

“Supplemental Indenture” means any supplemental indenture amending or supplementing the Indenture.

“Surplus Fund” means the fund by that name created pursuant to the Indenture.

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

“Term Bonds” means any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“Taxable Property” means the area within the boundaries of the District which is not exempt from application of the Special Tax by operation of law or the Rate and Method of Apportionment.

“Treasurer” means the Treasurer-Tax Collector of the County of San Diego.

#### GENERAL AUTHORIZATION AND BOND TERMS

Type and Nature of Bonds and Parity Bonds. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City or general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Bond Fund, as more fully described in the Indenture. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from Net Taxes and amounts in the Bond Fund is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District’s property, or upon any of its income, receipts or revenues except the Net Taxes and other amounts in the Bond Fund which are, under the terms of the Indenture and the Act, set aside for and irrevocably pledged to the payment of the Bonds, any Parity Bonds and interest thereon, and neither the members of the legislative body of the District nor any persons executing the Bonds or any Parity Bonds are liable personally on the Bonds or any Parity Bonds by reason of their issuance.

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

Equality of Bonds and Parity Bonds and Pledge of Net Taxes. Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds will be equally payable from the Net Taxes and other amounts in the Bond Fund, without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof will be exclusively paid from the Net Taxes and other amounts in the Bond Fund, which have been set aside for and irrevocably pledged to the payment of the Bonds and any Parity Bonds. Such pledge constitutes a first lien on the Net Taxes and other amounts in the Bond Fund. Amounts in the Bond Fund constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the

Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding will not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund will no longer be considered to be pledged to the Bonds or any Parity Bonds, and neither the Rebate Fund nor the Costs of Issuance Fund will be construed as a trust fund held for the benefit of the Owners.

Nothing in the Indenture or any Supplemental Indenture precludes: (i) subject to the limitations contained in the Indenture, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as later amended, or under any other law of the State; or (ii) the issuance, subject to the limitations contained in the Indenture, of Parity Bonds which are payable from Net Taxes.

Bond Register. The Fiscal Agent will keep or cause to be kept, at the Corporate Trust Office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which will be open to inspection by the District during all regular business hours upon reasonable prior notice, and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as provided in the Indenture.

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

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

Validity of Bonds and Parity Bonds. The validity of the authorization and issuance of the Bonds and any Parity Bonds will not be affected in any way by any defect in any proceedings taken by the District, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State will be conclusive evidence of their validity and of the regularity of their issuance.

Book-Entry System. The Bonds will be initially issued in the form of a separate single fully-registered Bond for each maturity (which may be typewritten). Upon initial issuance, the ownership of each such Bond will be registered in the Bond Register maintained by the Fiscal Agent in the name of the Nominee, as nominee of the Depository. Except as provided in the Indenture, all of the Outstanding Bonds will be registered in the Bond Register maintained by the Fiscal Agent in the name of the Nominee.

With respect to the Bonds registered in the name of the Nominee, the District and the Fiscal Agent have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Fiscal Agent have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register maintained by the Fiscal Agent, of any notice with respect to the Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event that the District redeems the Bonds in part; or (iv) the payment to any Participant or any other person, other than an Owner as shown in the Bond Register maintained by the Fiscal Agent, of any amount with respect to principal of, premium, if any, or interest on the Bonds. The District and the Fiscal Agent may treat and consider the person in whose name each Bond is registered in the Bond Register maintained by the Fiscal Agent as the absolute Owner of such Bond for the purpose of payment of principal, premium, if any, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Fiscal Agent will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner will receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to the Indenture. Upon delivery by the Depository to the Owner, Fiscal Agent and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the term "Nominee" in the Indenture will refer to such nominee of the Depository.

In order to qualify the Bonds and any Parity Bonds that the District elects to register in the name of the Nominee for the Depository's book-entry system, the District will execute and deliver the Representation Letter to the Depository concurrently with the issuance and delivery of the Bonds and any such Parity Bonds to their respective original purchasers. The execution and delivery of the Representation Letter do not in any other way limit the provisions of the Indenture or in any other way impose upon the District any obligation whatsoever with respect to persons having interests in the Bonds or Parity Bonds other than the Owners. In a separate agreement, the Fiscal Agent will have agreed to take all action necessary to ensure compliance with all representations of the District in the Representation Letter with respect to the Fiscal Agent at all times. In addition to the execution and delivery of the Representation Letter, the District will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify the Bonds and any Parity Bonds for the Depository's book-entry program.

In the event that: (i) the Depository determines not to continue to act as securities depository for the Bonds; or (ii) the Depository will no longer so act and gives notice to the Fiscal Agent of such determination, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District will prepare or direct the preparation of a new single, separate, fully-registered Bond and Parity Bond for each of the issues and maturities of the Bonds and Parity Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Bonds and Parity Bonds will no longer be restricted to being registered in the Bond Register in the name of the Nominee, but will be registered in whatever name or names Owners transferring or exchanging Bonds and Parity Bonds designate, in accordance with the provisions of the Indenture.

Notwithstanding any other provision of the Indenture to the contrary, so long as any Bond or Parity Bond is registered in the name of the Nominee, all payments with respect to principal of, premium, if any, and interest on such Bond or Parity Bond and all notices with respect to such Bond or Parity Bond will be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

The initial Depository under the Indenture will be The Depository Trust Company, New York, New York ("DTC"). The initial Nominee will be Cede & Co., as Nominee of DTC.

Issuance of Parity Bonds. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund



and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued thereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then outstanding.

#### CREATION OF FUNDS AND APPLICATION OF PROCEEDS AND NET TAXES

Creation of Funds. (a) There have been created the following funds and accounts, which will be maintained by the Fiscal Agent: (i) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Bond Fund (the "Bond Fund"), in which there will be created a Debt Service Account, a Redemption Account and a Reserve Account; (ii) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Rebate Fund (the "Rebate Fund") in which there will be created a Rebate Account and an Alternative Penalty Account; (iii) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Costs of Issuance Fund (the "Costs of Issuance Fund"); and (iv) The Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Surplus Fund (the "Surplus Fund").

The amounts on deposit in the foregoing funds and accounts will be held by the Fiscal Agent and the Fiscal Agent will invest and disburse the amounts in such funds and accounts in accordance with the provisions of the Indenture and disburse investment earnings thereon in accordance with the provisions of the Indenture.

(b) There has been created the Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) Special Tax Fund (the "Special Tax Fund"), which will be maintained by the District.

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

Debt Service Account of the Bond Fund. The principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds until maturity will be paid by the Fiscal Agent from amounts transferred to the Debt Service Account of the Bond Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds will be made when due, the Fiscal Agent will transfer from the Bond Fund to the Debt Service Account Net Taxes as received in each Fiscal Year until the amount in the Debt Service Account equals the Required Debt Service Deposit for such Fiscal Year. Moneys in the Debt Service Account will be used for the payment of the interest, principal or Sinking Fund Payment of the Bonds and Parity Bonds as the same become due.

Redemption Account of the Bond Fund. (a) All Special Tax Prepayments will be deposited to the Redemption Account of the Bond Fund. After making the deposit to the Debt Service Account of the Bond Fund pursuant to the Indenture and in accordance with the District's election to call Bonds or Parity Bonds for optional redemption as set forth therein or any Supplemental Indenture, the Fiscal Agent will transfer from the Bond Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal of and interest on the Bonds called for redemption, and the premiums payable as provided in the Indenture or any Supplemental Indenture on the Bonds or Parity Bonds called for optional redemption one Business Day prior to the redemption date; provided, however, that Net Taxes may be applied to optionally redeem Bonds or Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(b) Special Tax Prepayments deposited to the Redemption Account will be applied on the redemption date established pursuant to the Indenture for the use of such Special Tax Prepayments to the payment of the principal of, premium, if any, and interest on the Bonds and Parity Bonds to be redeemed with such Special Tax Prepayments.

(c) Moneys set aside in the Redemption Account will be used solely for the purpose of redeeming Bonds and Parity Bonds and will be applied on or after the redemption date to the payment of principal

of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds; provided, however, that in lieu or partially in lieu of such call and redemption, upon receipt by the Fiscal Agent of written direction of the District to purchase Bonds, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner provided in the Indenture. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine, but only at prices (including brokerage or other expenses) not more than par plus accrued interest, or, in the case of purchases to be made from funds to be applied to a redemption pursuant to the Indenture, par plus accrued interest, plus premium, if any, in the case of moneys set aside for an optional redemption. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Bond Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Bond Fund. There will be maintained in the Reserve Account of the Bond Fund cash or the Municipal Bond Debt Service Reserve Insurance Policy issued by the Bond Insurer (the "Reserve Policy") in an amount equal to the Reserve Requirement.

If the amounts in the Debt Service Account of the Bond Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent will draw upon the Reserve Policy in accordance with the provisions thereof and the Indenture. The Bond Insurer will pay each portion of the payments required by the Indenture that is due for payment and unpaid by reason of nonpayment by the District to the Fiscal Agent on the later to occur of: (i) the date that such scheduled principal or interest becomes due for payment; or (ii) the Business Day next following the day on which the Bond Insurer receives a demand for payment therefor in accordance with the terms of the Reserve Policy.

As long as the Reserve Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, the District and the Fiscal Agent have agreed to comply with the following provisions:

(a) The District will cause to be deposited the Reserve Policy in the Reserve Account and the Fiscal Agent will draw upon the Reserve Policy in accordance with the Indenture.

The District will repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Bond Insurer. Interest will accrue and be payable on such draws and expenses from the date of payment by the Bond Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of: (A) the greater of: (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A. at its principal office in the city of New York, New York, as its prime or base lending rate (the "Prime Rate") (any change in such Prime Rate to be effective on the date such changes are announced by JPMorgan Chase Bank, N.A.) plus 3%; and (ii) the then applicable highest rate of interest on the Bonds; and (B) the maximum rate permissible under applicable usury or similar laws limiting interest rates (including limits on interest rates applicable to obligations of the District). The Late Payment Rate will be computed on the basis of the actual number of days elapsed in a year of 360 days. In the event that JPMorgan Chase Bank, N.A. ceases to announce its Prime Rate publicly, the Prime Rate will be the publicly announced prime or base lending rate of such bank, banking association or trust company bank as the Bond Insurer in its sole and absolute discretion specifies.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the "Policy Costs") will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Bond Insurer will be credited first to interest due, then to the expenses due and then to principal due. As to the extent that payments are made to the Bond Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

All cash and investments in the Reserve Account established for the Bonds will be transferred to the Debt Service Account of the Bond Fund for payment of the debt service on the Bonds before any drawing may be made on the Reserve Policy or any other surety bonds (including the Reserve Policy), municipal bond insurance policies,

unconditional irrevocable letters of credit or any other security device, in each case issued by providers whose long term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, is rated, at the time such security device is issued, "AA" or better by Standard & Poor's (any such instrument, a "Reserve Account Credit Instrument") in lieu of cash.

Payment of any Policy Cost will be made prior to replenishment of any cash amounts. Draws on all Reserve Fund Credit Instruments (including the Reserve Policy) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to other Reserve Account Credit Instruments will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Account. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(b) Draws under the Reserve Policy may only be used to make payments on Bonds insured by the Bond Insurer.

(c) If the District fails to pay any Policy Costs in accordance with the requirements of the Indenture, the Bond Insurer will be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than: (i) acceleration of the maturity of the Bonds; or (ii) remedies which would adversely affect Owners of the Bonds.

(d) The Fiscal Agent will ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of the Indenture, including but not limited to clause (a) above, and provide notice to the Bond Insurer at least three Business Days prior to each date upon which interest or principal is due on the Bonds.

(e) The prior written consent of the Bond Insurer is a condition precedent to the deposit of any credit instrument (other than the Reserve Policy) provided in lieu of a cash deposit into the Reserve Account, if any. Amounts on deposit in the Reserve Account will be applied solely to the payment of debt service due on the Bonds.

(f) The District is not obligated: (i) to make any additional deposits into the Reserve Account in the event that the Bond Insurer defaults on its obligation to make payments under the Reserve Policy; or (ii) to replace the Reserve Policy in the event of a rating downgrade of the Bond Insurer.

(g) The Reserve Policy will expire on the earlier of the date the Bonds are no longer Outstanding and the final maturity date of the Bonds.

**Rebate Fund.** (a) The Fiscal Agent will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund and will establish a separate Rebate Account and Alternative Penalty Account therein. The District will cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund will be held by the Fiscal Agent in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund will be governed by the Indenture and the Tax Certificate.

Without limiting the generality of the foregoing, the District has agreed that there will be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Regulations as may be applicable to the Bonds from time to time, which the District has covenanted to pay or cause to be paid to the United States at the times and in the amounts determined under the Tax Certificate. The Fiscal Agent has agreed to comply with all instructions given to it by the District in accordance with the foregoing covenant. The Fiscal Agent will conclusively be deemed to have complied with the Rebate Fund provisions of the Indenture if it follows the instructions of the District and will not be required to take any actions thereunder in the absence of instructions from the District.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to the Bonds or Parity Bonds after payment in full of such issue and after making the payments required to comply with the Indenture and the Tax Certificate may be withdrawn by the Fiscal Agent at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements of the Indenture will survive the defeasance and final payment of the Bonds or Parity Bonds.

(d) Amendment Without Consent of Owners. The foregoing provisions may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or Parity Bonds issued on a tax exempt basis. Notwithstanding any provision of the Indenture, if the District provides to the Fiscal Agent an opinion of a nationally recognized bond or tax counsel that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the tax-exempt status of interest on the Bonds or Parity Bonds, the Fiscal Agent and the District may conclusively rely on such opinion in complying with the Rebate Fund requirements of the Indenture, and the covenants thereunder will be deemed to be modified to that extent.

Surplus Fund. After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent will transfer all remaining amounts in the Bond Fund (other than the Reserve Account) to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Bond Fund because the District has included such amounts as being available in the Bond Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Fiscal Agent at the direction of an Authorized Representative of the District: (i) to the Debt Service Account or the Redemption Account of the Bond Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds; (ii) to the Reserve Account of the Bond Fund in order to replenish the Reserve Account to the Reserve Requirement; or (iii) to the District for any lawful purpose of the District.

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

Investments. Moneys held in any of the Funds and Accounts under the Indenture will be invested by the District, or by the Fiscal Agent at the written direction of the District, in accordance with the limitations set forth below only in Authorized Investments which will be deemed at all times to be a part of such Funds and Accounts. Any loss resulting from such Authorized Investments will be charged to the Fund or Account from which such investment was made, and any investment earnings on a Fund or Account will be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund will be deposited in that Fund; (ii) investment earnings on all amounts in the Rebate Fund will be deposited in that Fund; (iii) investment earnings on all amounts deposited in the Reserve Account of the Bond Fund will be used to satisfy the Reserve Requirement and any investment earnings not needed to satisfy the Reserve Requirement will be withdrawn from the Reserve Account one Business Day before each Interest Payment Date and transferred to the Debt Service Account of the Bond Fund

as provided in the Indenture; and (iv) all other investment earnings will be deposited in the Debt Service Account of the Bond Fund. Moneys in the Funds and Accounts held under the Indenture may be invested by the Fiscal Agent, upon the written direction of the District, from time to time, in Authorized Investments for which written direction is made in accordance with the following restrictions:

(a) Moneys in the Accounts within the Costs of Issuance Fund will be invested in Authorized Investments which will by their terms mature, as close as practicable to the date that the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund.

(b) Moneys in the Debt Service Account of the Bond Fund will be invested only in Authorized Investments which will by their terms mature or are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) One-half of the amount in the Reserve Account of the Bond Fund may be invested only in Authorized Investments which mature not later than six months from their date of purchase by the Fiscal Agent, and one-half of such amount will be invested in Authorized Investments which mature not more than two (2) years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an investment or repurchase agreement so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amounts relate.

(d) Moneys in the Rebate Fund will be invested only in Authorized Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates that such amounts are needed to be paid to the United States Government pursuant to the Indenture.

The Fiscal Agent, at the written direction of the District, will sell, or present for redemption, any Authorized Investments so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts will be valued at their cost, except that amounts in the Reserve Account will be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations under the Indenture, the Fiscal Agent may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary, the Fiscal Agent is not responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Fiscal Agent may act as principal or agent in the making or disposing of any investment and is entitled to its customary fee for making such investment. The Fiscal Agent may sell, or present for redemption, any Authorized Investment so purchased whenever necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such Authorized Investment is credited, and, subject to the provisions of the Indenture, the Fiscal Agent will not be liable or responsible for any loss resulting from such investment. For investment purposes, the Fiscal Agent may commingle the funds and accounts established under the Indenture, but will account for each separately. In the absence of written investment direction the Fiscal Agent will invest solely in Authorized Investments set forth in clause (d) of the definition thereof; provided, however, that any such investment will be made by the Fiscal Agent only if, prior to the date on which such investment is to be made, the Fiscal Agent has received a written direction of the District specifying a specific money market fund and, if no such written direction of the District is so received, the Fiscal Agent will hold such moneys uninvested.

The District has acknowledged that regulations of the Comptroller of the Currency grant the District the right to receive brokerage confirmations of security transactions to be effected by the Fiscal Agent under the Indenture as they occur. The District has specifically waived the right to receive such confirmations to the extent permitted by applicable law and has agreed that it will instead receive periodic cash transaction statements which include detail for the investment transactions effected by the Fiscal Agent under the Indenture; provided, however,

that the District retains its right to receive brokerage confirmation on any investment transaction requested by the District.

Payments Under the Bond Insurance Policy. In the event that on the second Business Day prior to any Interest Payment Date, the Fiscal Agent has not received sufficient moneys to pay all principal of and interest on the Bonds due on such Interest Payment Date, the Fiscal Agent will immediately notify the Bond Insurer or its designee on the same Business Day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the Interest Payment Date, the Fiscal Agent will so notify the Bond Insurer or its designee.

In addition, if the Fiscal Agent has notice that any holder of the Bonds has been required to disgorge payments of principal of or interest on the Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Fiscal Agent will notify the Bond Insurer or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of the Bond Insurer.

The Fiscal Agent will irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Bonds as follows: (a) if there is a deficiency in amounts required to pay interest and/or principal on the Bonds, the Fiscal Agent will: (i) execute and deliver to the Bond Insurer, in form satisfactory to the Bond Insurer, an instrument appointing the Bond Insurer as agent and attorney-in-fact for such holders of the Bonds in any legal proceeding related to the payment and assignment to the Bond Insurer of the claims for interest on the Bonds; (ii) receive as designee of the respective holders (and not as Fiscal Agent) in accordance with the tenor of the Policy payment from the Bond Insurer with respect to the claims for interest so assigned; and (iii) disburse the same to such respective holders; and (b) if there is a deficiency in amounts required to pay principal of the Bonds, the Fiscal Agent will: (i) execute and deliver to the Bond Insurer, in form satisfactory to the Bond Insurer, an instrument appointing the Bond Insurer as agent and attorney-in-fact for such holders of the Bonds in any legal proceeding related to the payment and assignment to the Bond Insurer of the claims for interest on the Bonds; (ii) receive as designee of the respective holders (and not as Fiscal Agent) in accordance with the tenor of the Policy payment from the Bond Insurer with respect to the claims for interest so assigned; and (iii) disburse the same to such respective holders.

The Fiscal Agent will designate any portion of payment of principal on Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current holder, whether DTC or its nominee or otherwise, and will issue a replacement Bond to the Bond Insurer, registered in the name directed by the Bond Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Fiscal Agent's failure to so designate any payment or issue any replacement Bond will have no effect on the amount of principal or interest payable by the District on any Bond or the subrogation or assignment rights of the Bond Insurer.

Payments with respect to claims for interest on and principal of Bonds disbursed by the Fiscal Agent from proceeds of the Policy will not be considered to discharge the obligation of the District with respect to such Bonds, and the Bond Insurer will become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise.

Irrespective of whether any such assignment is executed and delivered, the District and the Fiscal Agent have agreed for the benefit of the Bond Insurer that: (a) they recognize that to the extent that the Bond Insurer makes payments directly or indirectly (e.g., by paying through the Fiscal Agent), on account of principal of or interest on the Bonds, the Bond Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the District, with interest thereon, as provided and solely from the sources stated in the Indenture and the Bonds; and (b) they will accordingly pay to the Bond Insurer the amount of such principal and interest, with interest thereon, but only from the sources and in the manner provided in the Indenture and the Bonds for the payment of principal of and interest on the Bonds to holders, and will otherwise treat the Bond Insurer as the owner of such rights to the amount of such principal and interest.

The Bond Insurer is entitled to pay principal or interest on the Bonds that become Due for Payment but is unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Bond Insurer has received a claim upon the Policy.

Additional Payments to the Bond Insurer. The District has agreed unconditionally that it will pay or reimburse the Bond Insurer on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that the Bond Insurer may pay or incur, including, but not limited to, fees and expenses of the Bond Insurer's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Indenture or the Bonds ("Administrative Costs"). For purposes of the foregoing, costs and expenses include a reasonable allocation of compensation and overhead attributable to the time of employees of the Bond Insurer spent in connection with the actions described in the preceding sentence. The District has agreed that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to the Bond Insurer until the date that the Bond Insurer is paid in full.

Notwithstanding anything in the Indenture to the contrary, the District has agreed to pay the Bond Insurer: (i) a sum equal to the total of all amounts paid by the Bond Insurer under the Policy (the "BAM Policy Payment"); and (ii) interest on such BAM Policy Payments from the date paid by the Bond Insurer until payment thereof in full by the District, payable to the Bond Insurer at the Late Payment Rate per annum (collectively, "BAM Reimbursement Amounts") compounded semi-annually. The District has covenanted and agreed that the BAM Reimbursement Amounts are secured by a lien on and pledge of the Net Taxes and payable from such Net Taxes on a parity with debt service due on the Bonds.

#### REDEMPTION OF BONDS

Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the District 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 authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity.

Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption: (a) The Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture, anything therein or in the Bonds to the contrary notwithstanding; (b) Upon presentation and surrender thereof at the Corporate Trust Office of the Fiscal Agent, the redemption price of such Bonds will be paid to the Owners thereof; (c) As of the redemption date, the Bonds, or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds, or portions thereof, will cease to bear further interest; and (d) As of the date fixed for redemption, no Owner of any of the Bonds, or portions thereof so designated for redemption, will be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

#### COVENANTS AND WARRANTY

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

Covenants. So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Bond Fund:

(a) Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Gross Taxes in trust and will deposit the Gross Taxes in the Special Tax Fund and disburse them only as provided in the Indenture. The District has no beneficial right or interest in Net Taxes deposited with the Trustee except as provided by the Indenture. All such Gross Taxes will be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and Parity Bonds and in accordance with the Indenture to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds and Parity Bonds and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and of the Bonds and Parity Bonds issued thereunder.

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

(b) Levy and Collection of Special Tax. Subject to the maximum Special Tax rates, the District will comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes.

On or before each June 1, commencing June 1, 2016, the Fiscal Agent will provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Fiscal Agent pursuant to the Indenture. The receipt of such notice by the District will in no way affect the obligations of the District under the following paragraphs. Upon receipt of a copy of such notice, the District will communicate with the Treasurer or other appropriate official of the County 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 year.

The District will retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2015-16, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Treasurer will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, and approval by the legislative body of the District, the District will prepare or cause to be prepared, and transmit to the Treasurer, such data as the Treasurer requires to include the levy of the Special Taxes on the next secured tax roll.

The District will fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on Outstanding Bonds and Parity Bonds becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Account for the Bonds and Parity Bonds, an amount equal to the estimated Administrative Expenses, Policy Costs and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. The District has further covenanted that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and Parity Bonds are Outstanding, including the initiation of proceedings under the Act to reduce the Maximum Special Tax rates on Developed Property below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds. For purposes of the Indenture, the terms "Maximum Special Tax" and "Developed Property" have the meanings set forth in the Rate and Method of Apportionment.

The fees and expenses of the Independent Financial Consultant retained by the District to assist in computing the levy of the Special Taxes under the Indenture and any reconciliation of amounts levied to amount



received, as well as the costs and expenses of the District (including a charge for District staff time) in conducting its duties thereunder, will be Administrative Expenses thereunder.

(c) Commence Foreclosure Proceedings. Special Taxes collected as a result of a foreclosure proceeding will be deposited in the Special Tax Fund and only inure to the benefit of the Bonds and Parity Bonds in the manner provided in the Indenture.

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

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries are made of all transactions relating to the improvements constructed with the proceeds of bonded indebtedness issued by the District, the levy of the Special Tax and the deposits to the Bond Fund. Such books of records and accounts will at all times during business hours be subject to the inspection of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of the principal amount of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis will not be adversely affected, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other moneys or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code.

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

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

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

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in

connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

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

(g) Covenants to Defend. The District has covenanted that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth therein, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(h) Limitation on Right to Tender Bonds. The District has covenanted that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Tax unless the District has first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(i) Continuing Disclosure Covenant. The District has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the District to comply with its obligations under the Continuing Disclosure Agreement will not be considered an event of default under the Indenture, and the sole remedy in the event of any failure of the District to comply with the Continuing Disclosure Agreement will be an action to compel performance.

(j) Opinions. In the event that an opinion is rendered by Bond Counsel as provided in the Indenture from a firm other than the firm which rendered the Bond Counsel opinion at closing, such subsequent opinion by Bond Counsel will also include the conclusions set forth in the original Bond Counsel opinion.

(k) Reduction of Maximum Special Taxes. The District has found and determined that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For such reason, the District has determined that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds and Parity Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District has covenanted, that it will not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that: (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; (ii) based on the current development plan for parcels within the District, such changes do not reduce the maximum Special Taxes expected to be levied on Developed Property upon the buildout of such parcels in each year after buildout to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

Notwithstanding the foregoing, the District may modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below an amount equal to the sum of the Administrative Expense Requirement in the last Fiscal Year in which any Bonds or Parity Bonds

are due plus an amount equal to 110% of Maximum Annual Debt Service on the Bonds and Parity Bonds Outstanding as of the date of such amendment.

(l) Increases in Special Tax Rates as a Consequence of Delinquency. The Special Tax on Residential Property levied in any Fiscal Year will under no circumstances be increased as a consequence of delinquency or default by the owner of any other parcel or parcels within the District by more than 10%. For purposes of this covenant, the term "Residential Property" has the meaning set forth in the Rate and Method of Apportionment.

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

#### AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, but, except as to paragraphs (a) and (b) below unless such amendment adversely affects the rights or interests of the Bond Insurer, with the written consent of the Bond Insurer so long as the Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision therein, or to make any other provision with respect to matters or questions arising under the Indenture or in any Supplemental Indenture, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which do not materially adversely affect the interests of the Owners of the Bonds then Outstanding;

(d) to modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below the amounts which are necessary to pay Administrative Expenses and to provide Special Taxes in an amount equal to 110% of Maximum Annual Debt Service on the Bonds Outstanding as of the date of such amendment;

(e) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners; provided that any amendment or supplement to the Indenture which will affect the Fiscal Agent's duties or protections or the Bond Insurer's rights or interests set forth thereunder will be effective only upon written consent of the Fiscal Agent or the Bond Insurer, as applicable; or

(f) to issue Parity Bonds in accordance with the Indenture.

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described above, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, together with the Bond Insurer, so long as the Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, have the right to consent to and approve the adoption

by the District of such Supplemental Indentures as deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing therein permits, or will be construed as permitting: (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District desires to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture requires the consent of the Bondowners, the District will so notify the Fiscal Agent and deliver to the Fiscal Agent a copy of the proposed Supplemental Indenture. The Fiscal Agent will, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to the Bond Insurer, to each Rating Agency then rating the Bonds and to all Bondowners at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed Supplemental Indenture and state that a copy thereof is on file at the Corporate Trust Office for inspection by all Bondowners. The failure of any Bondowners to receive such notice will not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent receives an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments refer to the proposed Supplemental Indenture described in such notice, and specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Indenture, when duly adopted by the District, will thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, will be disregarded and treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Indenture, the Indenture will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds will thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments.

Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds. After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the Corporate Trust Office or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action will be made on such Bonds or Parity Bonds. If the District so determines, new Bonds or Parity Bonds so modified as, in the opinion of the District, are necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds will be exchanged at the Corporate Trust Office or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

Legal Opinion. In executing, or accepting the additional trusts created by, any Supplemental Indenture permitted by the Indenture or the modification thereby of the trusts created by the Indenture, the Fiscal Agent is entitled to receive, and will be fully protected in relying upon, an opinion of counsel stating that the execution of

such Supplemental Indenture is authorized or permitted by the Indenture and complies with the terms thereof. The Fiscal Agent may, but is not obligated to, enter into any such Supplemental Indenture which affects the Fiscal Agent's own rights, duties or immunities under the Indenture or otherwise,

#### FISCAL AGENT

Fiscal Agent. The Bank of New York Mellon Trust Company, N.A., having a Corporate Trust Office in Los Angeles, California, has been appointed Fiscal Agent for the District for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Indenture and to allocate, use and apply the same as provided in the Indenture. In the event that the District fails to deposit with the Fiscal Agent any amount due under the Indenture when due, the Fiscal Agent will provide notice to the District of such shortfall in writing to the extent that such amount is known to the Fiscal Agent.

The Fiscal Agent has been authorized to and will mail by first class mail, postage prepaid, or pay by wire transfer as provided in the Indenture, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds and to provide for the authentication of Bonds and Parity Bonds, all as provided in the Indenture, and will perform all other duties assigned to or imposed on it as provided therein. The Fiscal Agent will keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it. The Fiscal Agent will deliver to the District a monthly accounting of the Funds and Accounts that it holds under the Indenture; provided, however, that the Fiscal Agent is not obligated to deliver such accounting for any Fund or Account that has a balance of zero. The Fiscal Agent may establish such Funds and Accounts as it deems necessary or appropriate to perform its obligations under the Indenture.

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

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

Removal of Fiscal Agent. The District may at any time at its sole discretion, with the consent of the Bond Insurer so long as the Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor is: (a) a bank, banking association or trust company supervised by the Office of the Comptroller of the Currency having a combined capital (exclusive of borrowed capital) and surplus of at least \$250,000,000, and subject to supervision or examination by federal or state authority; or (b) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1,000,000,000 in assets; and provided further that, so long as the Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, no removal of the Fiscal Agent may take effect until a successor Fiscal Agent that is approved by the Bond Insurer is qualified and appointed. Any removal will become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank, banking association or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture, the combined capital and surplus of such bank, banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Resignation of Fiscal Agent. The Fiscal Agent may at any time resign by giving written notice to the District and the Bond Insurer and by giving to the Owners notice of such resignation, which notice will be mailed to the Owners at their addresses appearing in the Bond Register. Upon receiving such notice of resignation, the District will promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon: (a) qualification and acceptance of appointment by the successor Fiscal Agent; and (b) so long as the Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, approval by the Bond Insurer. If no appointment of a successor Fiscal Agent is made pursuant to the foregoing provisions within 30 days after the Fiscal Agent has given to the District, the Bond Insurer and the Owners written notice, the Fiscal Agent, at the expense of the District, or the District may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent, which successor is acceptable to the District.

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

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

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

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

The Fiscal Agent has no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds or Parity Bonds. No provision of the Indenture or any other document related thereto requires the Fiscal Agent to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Indenture. The immunities extended to the Fiscal Agent also extend to its directors, officers, employees and agents.

The Fiscal Agent has the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Indenture and delivered using electronic means ("Electronic Means"), which means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Fiscal Agent, or another method or system specified by the Fiscal Agent as available for use in connection with its services under the Indenture); provided, however, that the District will provide to the Fiscal Agent an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by the District whenever a person is to be added or deleted from the listing. If the District elects to give the Fiscal Agent Instructions using Electronic

Means and the Fiscal Agent in its discretion elects to act upon such Instructions, the Fiscal Agent's understanding of such Instructions will be deemed controlling. The District has understood and agreed that the Fiscal Agent cannot determine the identity of the actual sender of such Instructions and that the Fiscal Agent will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Fiscal Agent have been sent by such Authorized Officer. The District will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Fiscal Agent and that the District and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the District. The Fiscal Agent will not be liable for any losses, costs or expenses arising directly or indirectly from the Fiscal Agent's reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. The District has agreed: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Fiscal Agent, including without limitation the risk of the Fiscal Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Fiscal Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the District; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Fiscal Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

The Fiscal Agent is not liable to the parties to the Indenture or deemed in breach or default thereunder if and to the extent its performance thereunder is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Fiscal Agent and could not have been avoided by exercising due care. Force majeure includes but is limited to acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The Fiscal Agent is not responsible for or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

The permissive right of the Fiscal Agent to do things enumerated in the Indenture may not be construed as a duty and it will not be answerable for other than its negligence or willful misconduct.

The Fiscal Agent may execute any of the trusts or powers of the Indenture and perform the duties required of it thereunder either directly or by or through attorneys or agents, is not liable for the acts or omissions of such attorneys or agents appointed with due care, and is entitled to rely on advice of counsel concerning all matters of trust and its duty thereunder.

Merger or Consolidation. Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it is a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, will be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding. The Bond Insurer must receive prior written notice from the Fiscal Agent of any name change of the Fiscal Agent.

## EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events constitutes an "Event of Default":

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) Default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same become due and payable; or

(c) Except as described in clauses (a) or (b), default by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, which default has continued for a period of 30 days after the District has been given notice in writing of such default by the Fiscal Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

Remedies of Owners. Following the occurrence of an Event of Default, any Owner has the right, subject to the rights of the Bond Insurer set forth in the Indenture, for the equal benefit and protection of all Owners similarly situated:

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

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in the Indenture, the Bonds or Parity Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes pledged for such payment, or affects or impairs the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and Parity Bonds and in the Indenture. The principal of the Bonds and Parity Bonds is not subject to acceleration under the Indenture.

A waiver of any default or breach of duty or contract by any Owner will not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default will impair any such right or power or be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

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

In case the moneys held by the Fiscal Agent after an Event of Default pursuant to the Indenture are insufficient to pay in full the whole amount so owing and unpaid upon the Bonds and Parity Bonds, then all available amounts will be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Bond Insurer's Rights. Anything in the Indenture to the contrary notwithstanding, so long as the Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, upon the occurrence and continuance of a default or an Event of Default, the Bond Insurer will be deemed to be the sole Owner of the Bonds for all purposes of the Indenture, including but not limited to exercising remedies and approving amendments, and will be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds



or the Fiscal Agent for the benefit of the Owners of the Bonds, and the Fiscal Agent may not waive any default or Event of Default undertake any remedy without the Bond Insurer's written consent.

In addition, to the extent permitted by law, so long as the Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, any reorganization or liquidation plan with respect to the District must be acceptable to the Bond Insurer in writing and in the event of any reorganization or liquidation of the District, the Bond Insurer has the right to vote on behalf of all holders of the Bonds.

## DEFEASANCE

Defeasance. If the District pays or causes to be paid, or there is otherwise paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond will cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bonds will thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Indenture, upon payment of all amounts owed by the District to the Fiscal Agent thereunder, the Fiscal Agent will execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent will, after payment of amounts payable to the Fiscal Agent thereunder, pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the interest due on and the principal of such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond will be deemed to have been paid within the meaning expressed in the foregoing paragraph if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Bond Fund which are available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable; or

(c) by depositing with the Fiscal Agent, or another escrow bank appointed by the District, in trust, direct, noncallable Federal Securities, of the type defined in the definition thereof set forth in the Indenture, in which the District may lawfully invest its money, in such amount as an Independent Financial Consultant determines will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Bond Fund which are available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds have not been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond will cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Indenture relating to compliance with the Code. Notice of such election will be filed with the Fiscal Agent not less than 30 days prior to the proposed defeasance date. In connection with a defeasance under clauses (b) or (c) above, there will be provided to the Fiscal Agent an opinion of Bond Counsel to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture. Upon a defeasance, the Fiscal Agent, upon request of the District, will release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds and Parity Bonds, the Fiscal Agent will pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds

when due and any fees and expenses of the Fiscal Agent remaining unpaid. The Fiscal Agent will, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds and Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Notwithstanding the foregoing, so long as the Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, the obligations created by the Indenture will not cease, terminate or become void unless there has been delivered to the Bond Insurer at least three Business Days prior to any defeasance with respect to the Bonds, draft copies of an escrow agreement, an opinion of Bond Counsel regarding the validity and enforceability of the escrow agreement and the defeasance of the Insured Obligations, and a verification report (a "Verification Report") prepared by a nationally recognized independent financial analyst or firm of certified public accountants regarding the sufficiency of the escrow fund. Such opinion and Verification Report will be addressed to the Bond Insurer and will be in form and substance satisfactory to the Bond Insurer.

In addition, the escrow agreement must provide that: (a) any substitution of securities following the execution and delivery of the escrow agreement shall require the delivery of: (i) a Verification Report; (ii) an opinion of Bond Counsel that such substitution will not adversely affect the exclusion (if interest on the Bonds is excludable) from gross income of the holders of the Bonds of the interest on the Bonds for federal income tax purposes; and (iii) the prior written consent of the Bond Insurer, which consent will not be unreasonably withheld; (b) the District will not exercise any prior optional redemption of Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless: (i) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds; and (ii) as a condition to any such redemption there is provided to the Bond Insurer a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such redemption; and (c) the District may not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Bond Insurer.

Notwithstanding any other provision of the Indenture, the Indenture will not be discharged until all Policy Costs owing to the Bond Insurer have been paid in full. The District's obligation to pay such amount will expressly survive payment in full of the Bonds.

Notwithstanding any other provision of the Indenture, in the event that principal and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the Policy, the Bonds will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, the assignment and pledge of the Net Taxes and all covenants, agreements and other obligations of the District to the registered owners will continue to exist and run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Bonds.

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness. The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Bond Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued thereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding. Parity Bonds which may only be issued to effect a partial refunding may be issued subject to the following additional specific conditions, which have been made conditions precedent to the issuance of any such Parity Bonds:

(a) The District is in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect has been filed with the Fiscal Agent; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds has been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds has been provided for by a Supplemental Indenture duly

adopted by the District which specifies the following: (1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding; (2) the authorized principal amount of such Parity Bonds; (3) the date and the maturity date or dates of such Parity Bonds; provided that: (i) each maturity date falls on a September 1; (ii) all such Parity Bonds of like maturity are identical in all respects, except as to number; and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, are established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates; (4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication; (5) the denominations and method of numbering of such Parity Bonds; (6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds; (7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Bond Fund to increase the amount therein to the Reserve Requirement; (8) the form of such Parity Bonds; and (9) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District has received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Fiscal Agent (unless the Fiscal Agent is directed by the District to accept any of such documents bearing a prior date): (1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds; (2) a written request of the District as to the delivery of such Parity Bonds; (3) an opinion of Bond Counsel and/or general counsel to the District to the effect that: (i) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (ii) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax exempt basis, or the exemption from State personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued; (4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture; (5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and (6) such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

#### MISCELLANEOUS

Cancellation of Bonds and Parity Bonds. All Bonds and Parity Bonds surrendered to the Fiscal Agent for payment upon maturity or for redemption will upon payment therefor and any Bond or Parity Bond purchased by the District as authorized in the Indenture will be cancelled forthwith and will not be reissued. The Fiscal Agent will destroy such Bonds and Parity Bonds, as provided by law, and, upon written request from the District, furnish to the District a certificate of such destruction.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, banking

association, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds, will be sufficient for the purposes of the Indenture (except as otherwise provided in the Indenture), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank, banking association or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee will also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same is registered in the Bond Register will be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, will be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Fiscal Agent will be affected by any notice to the contrary.

Nothing contained in the Indenture will be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters stated in the Indenture which the Fiscal Agent or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond will bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Fiscal Agent in pursuance of such request or consent.

Unclaimed Moneys. Anything in the Indenture to the contrary notwithstanding and subject to the escheat laws of the State, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for two years after the date of deposit of such money if deposited with the Fiscal Agent after the said date when such Outstanding Bonds or Parity Bonds become due and payable, will be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Outstanding Bonds and Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent will, at the expense of the District, cause to be mailed to the registered Owners of such Outstanding Bonds and Parity Bonds at their addresses as they appear on the Bond Register of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date must not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Provisions Constitute Contract. The provisions of the Indenture constitute a contract between the District and the Bondowners and the provisions thereof will be construed in accordance with the laws of the State. In case any suit, action or proceeding to enforce any right or exercise any remedy is brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Fiscal Agent, then the District, the Fiscal Agent and the Bondowners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken. After the issuance and delivery of the Bonds, the Indenture will be irrevocable, but will be subject to modifications to the extent and in the manner provided therein, but to no greater extent and in no other manner.

Future Contracts. Nothing contained in the Indenture will be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes as defined therein.

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

Severability. If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, will be deemed severable and will not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant thereto will remain valid and the Bondowners will retain all valid rights and benefits accorded to them under the laws of the State.

Action on Next Business Day. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, is not a Business Day, such payment, with no interest accruing for the period from and after such nominal date, may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided therefore in the Indenture.

Bond Insurer as Third Party Beneficiary; Bond Insurer's Rights. The Bond Insurer is explicitly recognized as and will be deemed to be a Bond Owner entitled to all notices provided to Bond Owners and a third party beneficiary of the Indenture and the Bonds, and the Bond Insurer may enforce any right, remedy or claim conferred, given or granted under the Indenture and the Bonds as if it were a party thereto.

The rights granted to the Bond Insurer under the Indenture and the Bonds to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and will not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Bonds and such action does not evidence any position of the Bond Insurer, affirmative or negative, as to whether the consent of the holders of the Bonds or any other person is required in addition to the consent of the Bonds.

Insurer Default. If an Insurer Default occurs and is continuing, then, notwithstanding anything in the Indenture to the contrary: (1) if at any time prior to or following an Insurer Default, the Bond Insurer has made payment under the Policy, to the extent of such payment the Bond Insurer will be treated like any other holder of the Bonds for all purposes, including giving of consents; and (2) if the Bond Insurer has not made any payment under the Policy, the Bond Insurer will have no further consent rights until the particular Insurer Default is no longer continuing or the Bond Insurer makes a payment under the Policy, in which event, the foregoing clause (1) controls. For purposes of the Indenture, "Insurer Default" means: (A) the Bond Insurer has failed to make any payment under the Policy when due and owing in accordance with its terms; or (B) the Bond Insurer: (i) voluntarily commences any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law; (ii) consents to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition; (iii) applies for or consents to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property; (iv) files an answer admitting the material allegations of a petition filed against it in any such proceeding; (v) makes a general assignment for the benefit of creditors, or (vi) takes action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality orders the suspension of payments on the Policy or obtains an order or grants approval for the rehabilitation, liquidation, conservation or dissolution of the Bond Insurer (including without limitation under the New York Insurance Law).

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DISTRICT

*Upon issuance of the Bonds, the District proposes to enter into a Continuing Disclosure Agreement in substantially the following form:*

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of June 1, 2015, is executed and delivered by Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) (the “District”) and Special District Financing & Administration LLC, as dissemination agent, in connection with the issuance and delivery by the District of its Special Tax Refunding Bonds, Series 2015 (the “Bonds”). The Bonds are being issued pursuant to Resolution No. 2015-61 of the City adopted on April 22, 2015 and that certain Bond Indenture (the “Indenture”), dated as of June 1, 2015, by and between the District and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The District covenants as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“*City*” shall mean the City of Escondido, California.

“*Disclosure Representative*” shall mean the City Manager or the Director of Administrative Services of the City, or his or her designee, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean, initially, Special District Financing & Administration LLC, or any successor Dissemination Agent designated in writing by the District which has filed with the then current Dissemination Agent a written acceptance of such designation.

“*EMMA*” shall mean the Electronic Municipal Market Access system of the MSRB.

“*Listed Events*” shall mean any of the events listed in Section 5 of this Disclosure Agreement.

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

“*Official Statement*” shall mean the Official Statement, dated April 30, 2015, relating to the Bonds.

“*Participating Underwriter*” shall mean Stifel, Nicolaus & Company, Incorporated.

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

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*State*” shall mean the State of California.

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

### SECTION 3. Provision of Annual Reports.

(a) Not later than nine months following the end of the District’s fiscal year, commencing March 31, 2016, the District shall provide, or shall cause the Dissemination Agent to provide, to the Repository and to the Bond Insurer an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify the Repository of a change in its fiscal year.

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District will be filing the Annual Report in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the District is the Dissemination Agent and the District is unable to provide to the Repository and to the Bond Insurer an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in the manner prescribed by the MSRB. If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the manner prescribed by the MSRB.

(d) The Dissemination Agent shall:



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

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

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

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the City for the most recent fiscal year of the District then ended. If the audited financial statements are not available by the time that the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the District shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to the Repository, including a reference to the specific federal or State law or regulation specifically describing the legal requirements for the change in accounting basis.

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

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Bond Indenture and the Reserve Requirement as of the September 2 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid in the Fiscal Year for which the Annual Report is being prepared;

(iv) an update of the estimated total assessed value-to-lien ratio within the District substantially in the form of Table 5 in the Official Statement based upon the most recent Special Tax levy preceding the date of the Annual Report and on the assessed values of property for the current fiscal year;

(v) an update of Table 1 in the Official Statement;

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

(vii) the total Special Taxes levied and the total Special Taxes collected for the prior fiscal year and the total Special Taxes that remain unpaid for each prior fiscal year in which Special Taxes were levied; and

(viii) any information not already included under (i) through (vii) above that the District 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.

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

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

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

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

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

(b) Pursuant to the provisions of this Section 5(b), the District shall give, or cause to be given, to the Repository and to the Bond Insurer notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the District or the sale of all or substantially all of the assets of the City or the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

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

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

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

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

**SECTION 7. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Special District Financing & Administration LLC. The Dissemination Agent may resign: (i) by providing thirty days written notice to the District; and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

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

(b) This Disclosure Agreement also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied.

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

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

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

The District 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, as amended, may apply to the District, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District and/or the Dissemination Agent to comply with their respective obligations

under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the District shall be paid: (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

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

SECTION 13. 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.

SECTION 14. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 15. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

To the District:	Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch) c/o City of Escondido 201 North Broadway Escondido, California 92025 Attention: Director of Administrative Services
To the Fiscal Agent:	The Bank of New York Mellon Trust Company, N.A. 400 South Hope Street, Suite 400 Los Angeles, California 90071 Attention: Corporate Trust Services
To the Dissemination Agent:	Special District Financing & Administration LLC 437 West Grand Avenue Escondido, California 92025
To the Participating Underwriter:	Stifel, Nicolaus & Company, Incorporated 1 Montgomery Street, 35th Floor

San Francisco, California 94104  
Attention: Municipal Research Department  
Email: avandegna@stifel.com

To the Bond Insurer:

Build America Mutual Assurance Company  
1 World Financial Center, 27th Floor  
200 Liberty Street  
New York, New York \_\_\_\_\_  
Attention: Surveillance  
Re: Policy No. 2013B0306  
Telephone: (212) 235-2500  
Telecopier: (212) 235-1542  
Email: notices@buildamerica.com

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

SECTION 16. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to Sections 4 and 5 hereof. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

COMMUNITY FACILITIES DISTRICT NO. 2006-01 OF  
THE CITY OF ESCONDIDO (EUREKA RANCH)

By: \_\_\_\_\_  
Its: Director of Administrative Services of the City of  
Escondido, acting in its capacity as the legislative  
body of Community Facilities District  
No. 2006-01 of the City of Escondido (Eureka  
Ranch)

SPECIAL DISTRICT FINANCING &  
ADMINISTRATION LLC, as Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Officer

## APPENDIX F

### BOOK-ENTRY-ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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 affect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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.



## APPENDIX G

### SPECIMEN MUNICIPAL BOND INSURANCE POLICY



#### MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN



**CALIFORNIA  
ENDORSEMENT TO  
MUNICIPAL BOND  
INSURANCE POLICY  
NO.**

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

\_\_\_\_\_  
Authorized Officer





FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272