

NEW ISSUE – BOOK ENTRY ONLY

NOT RATED

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion as to any other tax consequences regarding the Bonds. For a more complete discussion of the tax aspects, see “TAX MATTERS” herein.

\$16,030,000*
CITY OF INDIO
COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
SPECIAL TAX REFUNDING BONDS
SERIES 2015
(IMPROVEMENT AREA NO. 1)

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

The City of Indio Communities Facilities District No. 2004-3 (Terra Lago) (the “District”) will issue its Special Tax Refunding Bonds, Series 2015 (Improvement Area No. 1) (the “Bonds”) pursuant to a Bond Indenture, dated as of August 1, 2015 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., as trustee (the “Trustee”). The District has previously issued its Special Tax Bonds, Series 2005 (Improvement Area No. 1), currently outstanding in the aggregate principal amount of \$19,750,000 (the “2005 Bonds”). Proceeds of the Bonds will be used to (i) effect a current refunding of all of the District’s remaining outstanding 2005 Bonds, (ii) fund a debt service reserve account, and (iii) pay costs of issuance of the Bonds. The Bonds will be solely payable from and secured by Net Taxes and certain moneys in the Special Tax Fund (and designated accounts therein, but excluding the Administrative Expenses Account) established under the Indenture as further described herein. Net Taxes are derived from certain special taxes (the “Special Taxes”) levied on property within the District according to the rate and method of apportionment of special taxes approved by qualified electors of the District and the City Council of the City of Indio (the “City Council”), acting as the legislative body of the District. See “SECURITY FOR THE BONDS” herein.

The Bonds will be issued 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”). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of, and interest on, the Bonds will be paid directly to DTC by the Trustee. Principal of the Bonds is payable on the dates set forth on the inside cover hereof. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2016. Upon its receipt of payments of principal and interest, DTC is in turn obligated to remit such principal and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry Only System” and “APPENDIX E – DTC’S BOOK-ENTRY ONLY SYSTEM.”

The Bonds are subject to optional redemption, extraordinary redemption and mandatory sinking fund redemption prior to their maturity as described herein. See “THE BONDS—Redemption” herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND CERTAIN MONEYS ON DEPOSIT IN THE SPECIAL TAX FUND (AND DESIGNATED ACCOUNTS THEREIN BUT EXCLUDING THE ADMINISTRATIVE EXPENSES ACCOUNT) PLEDGED UNDER THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE CITY OF INDIO, THE COUNTY OF RIVERSIDE, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE PORTION OF THE SPECIAL TAXES THAT CONSTITUTE NET TAXES UNDER THE INDENTURE, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain of the risk factors that should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Certain legal matters will also be passed on for the District by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Disclosure Counsel and City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about August __, 2015.

STIFEL

Dated: August __, 2015

* Preliminary; subject to change.

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

\$16,030,000*
CITY OF INDIO
COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
SPECIAL TAX REFUNDING BONDS
SERIES 2015
(IMPROVEMENT AREA NO. 1)

Base CUSIP[†]: _____

MATURITY SCHEDULE
\$ _____ Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
	\$	%	%	

\$ _____ % Term Bond due September 1, 20__, Yield ____% CUSIP[†] _____
 \$ _____ % Term Bond due September 1, 20__, Yield ____% CUSIP[†] _____

* Preliminary; subject to change.

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CITY OF INDIO
Riverside County, California

City Council

Lupe Ramos Watson, *Mayor*
Glenn Miller, *Mayor Pro Tem*
Michael Wilson, *Councilmember*
Elaine Holmes, *Councilmember*
Troy Strange, *Councilmember*

City Staff

Dan Martinez, *City Manager*
Sharon Ellis, *City Treasurer*
Rob Rockwell, *Assistant City Manager & Finance Director*
Cynthia Hernandez, CMC, *City Clerk*
Roxanne Diaz, *City Attorney*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Richards, Watson & Gershon,
A Professional Corporation
Los Angeles, California

**Special Tax Consultant and
Dissemination Agent**

Willdan Financial Services
Temecula, California

Financial Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

Trustee and Escrow Agent

MUFG Union Bank, N.A.
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than those contained herein. If given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Bonds by any person in any jurisdiction in which such offer of solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom 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 of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” or other similar words and include, but are not limited to, statements and projections under the captions “SECURITY FOR THE BONDS – Projected Debt Service Coverage” and “THE DISTRICT.” The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the District has agreed to provide certain on-going financial and other data pursuant to a Continuing Disclosure Agreement (see “CONTINUING DISCLOSURE”), the District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based change.

The information set forth herein has been obtained from the District and other sources that the District believes are reliable, but it is not guaranteed as to its accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. All summaries of the resolutions, the Indenture, laws and statutes or other documents are made subject to the provisions thereof, respectively, and do not purport to be complete statements of any or all of such provisions.

The Underwriter has provided for the following statement 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 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.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Agreement Act of 1939, as amended, in reliance upon an exception from the registration requirements contained in such acts. The Bonds have not been registered or qualified under the securities laws of any state.

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

THE UNDERWRITER MAY OFFER AND SELL BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE OFFERING PRICE. THE OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE ORIGINAL PURCHASERS.

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\$16,030,000*
CITY OF INDIO
COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
SPECIAL TAX REFUNDING BONDS
SERIES 2015
(IMPROVEMENT AREA NO. 1)

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement.

General

This Official Statement, including the cover page, the inside cover and appendices hereto, is provided to furnish information in connection with the sale by the City of Indio Community Facilities District No. 2004-3 (Terra Lago) (the “District”) of its Special Tax Refunding Bonds, Series 2015 (Improvement Area No. 1) (the “Bonds”) in aggregate principal amount of \$16,030,000.* The Bonds are being issued pursuant to (i) the Mello-Roos Community Facilities Act of 1982, as amended, found in Articles 1 through 6, Chapter 2.5, Part 1, Division 2, Title 5 of the California Government Code (the “Mello-Roos Act”), (ii) Resolution No. 9811 adopted on July 15, 2015, by the City Council (the “City Council”) of the City of Indio (the “City”) acting as the legislative body of the District, and (iii) a Bond Indenture, dated as of August 1, 2015 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., as the trustee (the “Trustee”).

The District has previously issued its Special Tax Bonds, Series 2005 (Improvement Area No. 1), currently outstanding in the aggregate principal amount of \$19,750,000 (the “2005 Bonds”). The Bonds are being issued to (a) effect a current refunding of all of the District’s remaining outstanding 2005 Bonds, (b) fund a debt service reserve account, and (c) pay costs of issuance of the Bonds.

The Bonds will be solely payable from, and secured by, Net Taxes (defined below, see “SECURITY FOR THE BONDS – General”) and moneys in the Special Tax Fund (and the designated accounts therein but excluding the Administrative Expenses Account), which the Trustee will establish under the Indenture. Net Taxes are derived from certain special taxes (the “Special Taxes”) and levied on property within Improvement Area No. 1 of the District according to the rate and method of apportionment of special taxes (the “Rate and Method”) approved by qualified electors of Improvement Area No. 1 of the District and the City Council, acting as the legislative body of the District.

Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2016. The Bonds will mature in the amounts and on the dates and bear interest at rates shown on the inside cover of this Official Statement.

The Bonds will be issued in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”). DTC will act as the depository for the Bonds and all payments due on the Bonds will be made to Cede & Co. Ownership interests in the Bonds may be purchased only in book-entry form. See

* Preliminary; subject to change.

“THE BONDS – Book-Entry Only System” and “APPENDIX E – DTC’S BOOK-ENTRY ONLY SYSTEM.”

The City of Indio

The City of Indio (the “City”), a California general law city, was incorporated in 1930 and encompasses approximately 33 square miles. The City is the geographic mid-point of both Riverside County and Coachella Valley. It is located about 125 miles east of the center of the Los Angeles region, 75 miles north of the California-Baja California Mexican border and 30 miles southeast of Palm Springs and its neighboring communities (including Indian Wells, La Quinta and Palm Desert to the west and Coachella and Mecca to the east). The City has a Council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of City business and the coordination of all departments of the City. The City Council is composed of a Mayor and four members elected bi-annually at large to four-year alternating terms. The City employs a staff of approximately 233 full-time equivalent employees. See “APPENDIX A – GENERAL INFORMATION ABOUT THE CITY OF INDIO AND THE COUNTY OF RIVERSIDE” for more general information about the City.

The District

The City Council adopted its resolution of intention to establish the District on May 18, 2005, pursuant to which it also designated the respective territories comprising Improvement Area No. 1 (“Improvement Area No. 1”) and Improvement Area No. 2 (“Improvement Area No. 2”) of the District. In an election held on July 20, 2005, qualified electors of Improvement Area No. 1 of the District voted to (i) approve the Rate and Method, and (ii) authorize Improvement Area No. 1 of the District to incur up to \$30,000,000 of bonded indebtedness. On September 15, 2005, the District issued the 2005 Bonds in the original aggregate principal amount of \$26,330,000. Pursuant to a resolution adopted by the City Council on September 20, 2006, the bonded indebtedness authorization for Improvement Area No. 1 was amended and reduced to \$26,500,000.

The District consists of approximately 364.96 gross acres comprising two improvement areas on which the partially-developed, gated Terra Lago golf-course community is located. Improvement Area No. 1 is significantly developed and consists of approximately 174.80 acres, approximately 135.75 acres of which pertain to residential development and 39.05 acres of which are open space and include a reservoir. Of the 636 single-family residential parcels in Improvement Area No. 1, 523 parcels or approximately 82.23% have been developed and are owned by residential end users, and 113 parcels have yet to be developed and are bank-owned following the demise of the former master developer during the Great Recession. **The Net Taxes pledged for payment of the Bonds derive from Special Taxes levied on Improvement Area No. 1 of the District.**

The assessed valuation of the taxable parcels in Improvement Area No. 1 for Fiscal Year 2015-16 is \$123,374,438, with \$119,700,803 attributable to the 523 parcels classified as “Developed Property” and \$3,673,635 attributable to the 113 parcels classified as “Undeveloped Property” pursuant to the Rate and Method.

Improvement Area No. 2 consists of approximately 190.16 acres, which includes golf course property. In June 2013, Terra Lago Indio LLC, a Delaware limited liability company and affiliate of K. Hovnanian Homes (the “Area No. 2 Developer”), acquired all of the taxable property in Improvement Area No. 2 of the District, which had previously been owned by the same former master developer of Improvement Area No. 1 and also became bank-owned following default by the former master developer during the Great Recession. Prior to acquisition by the Area No. 2 Developer, the real property within

Improvement Area No. 2 was undeveloped. In February 2014, following receipt of a written request of the Area No. 2 Developer and by adoption of a resolution, the City Council extinguished the lien of the special taxes for Improvement Area No. 2 authorized by the Rate and Method, which had never previously been levied. No special tax bonds have ever been issued with respect to Improvement Area No. 2, and pursuant to the resolution adopted in February 2014, a Notice of Cessation of Special Tax and Extinguishment of Lien for all parcels within Improvement Area No. 2 of the District was recorded on February 20, 2014. Since February 2014, the Area No. 2 Developer has commenced construction and sales of homes in its development known as “Four Seasons at Terra Lago,” an active adult community within Improvement Area No. 2. **The Net Taxes pledged for payment of the Bonds derive from Special Taxes levied on Improvement Area No. 1 of the District. No Special Taxes are authorized to be levied on property in Improvement Area No. 2. Only the Special Taxes authorized to be levied on property in Improvement Area No. 1 contribute to the Net Taxes pledged as security for the Bonds.**

See “THE DISTRICT” for further information regarding the District.

Security for the Bonds

The Bonds are limited obligations of the District as described herein. Neither the full faith and credit nor the general taxing power of the City of Indio, the County, the State, or any political subdivision thereof is pledged to the payment of the Bonds.

The Bonds will be payable solely from and secured by a first pledge of Net Taxes and moneys deposited in the Special Tax Fund (and the Interest Account, the Principal Account, the Redemption Account and the Reserve Account therein, but excluding the Administrative Expenses Account) which the Trustee will establish under the Indenture. Net Taxes mean, generally, Special Taxes received by the District, less an amount up to the Administrative Expenses Requirement (defined below, see “SECURITY FOR THE BONDS – General”) set aside for Administrative Expenses (as defined in the Indenture, see “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions”) of the District.

On the initial delivery date of the Bonds, \$1,227,806.26* from the sale proceeds of the Bonds will be deposited in the Reserve Account. Such amount is equal to the initial Reserve Requirement (defined below, see “SECURITY FOR THE BONDS – Reserve Account”). Moneys on deposit in the Reserve Account will be applied to pay interest on, and/or principal (including sinking fund payments) of, the Bonds if moneys in the Interest Account, the Principal Account or the Redemption Account are insufficient for such purposes.

Subject to the limitations set forth in the Rate and Method, the District covenants in the Indenture to levy Special Taxes in Fiscal Year 2015-16 and each Fiscal Year thereafter, in an amount (when added to moneys on deposit in the Special Tax Fund) sufficient to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (the “Special Tax Requirement for Improvement Area No. 1”). *The amount of the Special Taxes which the District may levy each Fiscal Year is limited by the maximum rates of Special Taxes set forth in the Rate and Method.* See “SECURITY FOR THE BONDS – The Special Taxes” and “– Rate and Method” and “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” The District also covenants to commence judicial foreclosure procedures and prosecute the same against certain parcels

* Preliminary; subject to change.

with delinquent installments of Special Taxes. See “SECURITY FOR THE BONDS – Covenant to Foreclose.”

Professionals Involved in the Offering

MUFG Union Bank, National Association, Los Angeles, California, will act as Trustee with respect to the Bonds. Willdan Financial Services, Temecula, California, has acted as special tax consultant to the District.

The District has retained Fieldman, Rolapp & Associates as financial advisor (the “Financial Advisor”) in connection with the issuance of the Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The fees being paid to the Financial Advisor are contingent upon the issuance of the Bonds. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other securities public or otherwise.

All proceedings in connection with the issuance of the Bonds are subject to the approval of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Certain legal matters also will be passed on for the District by Richards, Watson & Gershon, as Disclosure Counsel and City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

The fees and expenses of Financial Advisor, Bond Counsel and Disclosure Counsel, and Underwriter’s Counsel are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The District will covenant in a Continuing Disclosure Agreement (the “District Continuing Disclosure Agreement”) to prepare and deliver an annual report to the Municipal Securities Rulemaking Board (“MSRB”), through its the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at www.emma.msrb.org, and to provide certain other information. See “CONTINUING DISCLOSURE” and “APPENDIX F – FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT.”

Summaries of Documents

There follows in this Official Statement descriptions of the Bonds, the Indenture, the Rate and Method, and various other agreements and documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Except as otherwise provided herein, capitalized terms used but not defined herein shall have the meanings set forth in the Indenture. Certain definitions contained in the Indenture are set forth in Appendix D. Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee in Los Angeles, California.

Other Information

This Official Statement speaks only as of its date as set forth on the cover hereof, and 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 District since the date hereof.

PLAN OF REFUNDING

A portion of the proceeds of the Bonds will be used to currently refund and defease all of the remaining outstanding District's previously issued 2005 Bonds, currently outstanding in the principal amount of \$19,750,000. See "SOURCES AND USES OF FUNDS." Concurrently with the issuance of the Bonds, the Agency will enter into an Escrow Agreement, dated as of August 1, 2015 (the "Escrow Agreement"), with MUFG Union Bank, N.A., Los Angeles, California, as escrow agent (the "Escrow Agent"). Under the Escrow Agreement, the Escrow Agent will create and establish an escrow fund, to be known as the Escrow Fund (the "Escrow Fund"). Amounts in the Escrow Fund will be held uninvested and will be used, together with moneys transferred from the funds and accounts held in connection with the 2005 Bonds and moneys received by the City pursuant to an agreement with the Area No. 2 Developer, to pay the principal and interest on the 2005 Bonds due September 1, 2015 and the redemption price on the remaining outstanding 2005 Bonds, including any accrued and unpaid interest with respect thereto, on September 12, 2015. The monies deposited in the Escrow Fund will be held solely for the benefit of the holders of the 2005 Bonds and will not serve as a security or be available for payment of principal of, or interest on, or premium, if any, on the Bonds.

Sufficiency of the deposits to pay and redeem the 2005 Bonds will be verified upon delivery of the Bonds by Grant Thornton LLP, Minneapolis, Minnesota. See "CONCLUDING INFORMATION – Verification" herein. As a result of the deposit and application of funds pursuant to the Escrow Agreement, the lien upon the Net Taxes of the 2005 Bonds will be discharged, and the 2005 Bonds will no longer have any claim against the Net Taxes.

[The remainder of this page is intentionally left blank.]

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of the proceeds from the sale of the Bonds:

Sources:

Par amount	\$
[Plus/Less]: Original issue [premium/discount]	
2005 Bonds Funds and Accounts	
City contribution	
Total Sources	<u>\$</u>

Uses:

Underwriter's discount	\$
Escrow Fund ⁽¹⁾	
Reserve Account ⁽²⁾	
Costs of Issuance Fund ⁽³⁾	
Total Uses	<u>\$</u>

(1) An amount of moneys sufficient to provide for the payment of the principal and interest on the 2005 Bonds through September 12, 2015.

(2) Equals to the initial Reserve Requirement.

(3) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Trustee, Special Tax Consultant, Financial Advisor, Verification Agent, printing expenses, and other costs.

[The remainder of this page is intentionally left blank.]

ANNUAL DEBT SERVICE

The following table shows the scheduled annual debt service for the Bonds:

Bond Year Ending September 1	Principal	Interest	Total Annual Debt Service
2016	\$	\$	\$
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
Total:	\$	\$	\$

THE BONDS

General

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates per annum as set forth on the inside front cover of this Official Statement. The Bonds will be issued in authorized denominations of \$5,000 or integral multiples thereof and will be dated their date of delivery. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and payable on March 1 and September 1 of each year, commencing March 1, 2016 (each an “Interest Payment Date”), until maturity or earlier redemption thereof. The Bonds will be initially delivered as one fully registered certificate for each maturity and will be delivered by means of the book-entry system of DTC. See “Book-Entry Only System” below.

Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date (*i.e.*, the 15th day of the month immediately preceding an Interest Payment Date) but before the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is before the close of business on the first Record Date, in which event interest will be payable from the dated date of the Bonds; provided, however, that if at the time of authentication of a

Bond, interest is in default, interest on that 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 that Bond, interest shall be payable from the dated date of that Bond.

Redemption

Optional Redemption. The Bonds maturing on or before September 1, 2025 are not subject to call and redemption prior to maturity. The Bonds maturing on or after September 1, 2026 shall be subject to call and redemption prior to maturity and may be redeemed, at the option of the District, from any source of funds on any date on or after September 1, 2025 in whole, or in part, from such maturities as are selected by the District and by lot within a maturity, at a redemption price equal to 100% of the principal amount to be redeemed, without premium, together with accrued interest to the date of redemption.

Extraordinary Redemption. The Bonds are subject to extraordinary redemption, as a whole, or in part on a *pro rata* basis among maturities, on any date from money derived from prepayment of Special Taxes, plus amounts transferred from the Reserve Account, pursuant to the Indenture. See “SECURITY FOR THE BONDS – Rate and Method – *Prepayment*” and “– Reserve Account.” In the event of such an extraordinary redemption, the Trustee will redeem Bonds, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

Redemption Dates	Redemption Price
On or before September 1, 2024	103%
September 2, 2024 and thereafter	100

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 20__ and September 1, 20__ (the “Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1 of each year commencing on September 1, 20__ and September 1, 20__, respectively, in accordance with the schedules of Sinking Fund Payments set forth below. The Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing on September 1, 20__

Redemption Date (September 1)	Principal Amount
_____	_____ \$

(maturity)

Term Bonds Maturing on September 1, 20

Redemption Date (September 1)	Principal Amount
	\$

(maturity)

In the event of a partial optional redemption or extraordinary redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds, as applicable, will be reduced, as nearly as practicable, on a *pro rata* basis, in integral multiples of \$5,000.

Purchase In Lieu of Redemption.

The Indenture provides that, in lieu or partially in lieu of any optional redemption, extraordinary redemption or mandatory sinking fund redemption as described above, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds. Such purchases of Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or an extraordinary redemption, the premium applicable at the next following call date. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Notice of Redemption. When Bonds are due for redemption under the Indenture, the Trustee will give notice, in the name of the District, of the redemption of such Bonds. The Trustee will mail, at least 30 days but not more than 45 days prior to the date of redemption, notice of the intended redemption, by first-class mail, postage prepaid, to the respective registered owners of the Bonds (the “Owners” or “Bondowners”) at the addresses appearing on the registration books of the Trustee kept pursuant to the Indenture, and the Underwriter as original purchaser of the Bonds. So long as a notice of redemption has been provided as set forth in the Indenture, the actual receipt of such notices by the Owners is not a condition precedent to redemption, and neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption. In addition, notice of redemption will be sent to the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at www.emma.msrb.org, in such electronic format and manner as specified by the EMMA, or such other organizations providing information with respect to called bonds as the District may designate to the Trustee in writing in accordance with then current guidelines of the Securities and Exchange Commission.

The District will have the right to rescind any optional redemption by written notice to the Trustee two (2) Business Days prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The District and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

So long as the Bonds are held in book-entry form, notice of redemption will be mailed by the Trustee to DTC and not to the beneficial owners of the Bonds under the DTC book-entry only system. Neither the District nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See “– Book-Entry-Only System” and “APPENDIX E – DTC’S BOOK-ENTRY ONLY SYSTEM.”

Selection of Bonds for Redemption. If less than all of the Bonds outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Trustee will treat such Bonds as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000.

Effect of Redemption. When notice of redemption has been given and the amount necessary for the redemption of the Bonds called for redemption is set aside for that purpose, the following will apply: (i) the Bonds designated for redemption will become due and payable on the date fixed for redemption, (ii) the Trustee will pay the redemption price to the Owner of the redeemed Bonds upon presentation and surrender of such Bonds at the office of the Trustee, (iii) 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 (iv) as of the redemption date, 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.

Book-Entry Only System

The Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. So long as DTC’s book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the District or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See “APPENDIX E – DTC’S BOOK-ENTRY ONLY SYSTEM.”

In the event that such book-entry system is discontinued with respect to the Bonds, the District will execute and deliver replacements in the form of registered certificates and, thereafter, the Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture. The following provisions will then apply: The principal of the Bonds and any premium due upon the redemption thereof will be payable upon presentation and surrender of the Bonds at the principal office of the Trustee located in St. Paul, Minnesota or such other place as the Trustee may designate. Interest on the Bonds will be paid by check of the Trustee mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the registration books of the Trustee as of the close of business on the Record Date (*i.e.*, 15th day of the month preceding the Interest Payment Date); provided that, upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds, payment will be made on the Interest Payment Date by wire transfer in immediately available funds to an account designated by such Owner.

SECURITY FOR THE BONDS

General

The Bonds will be payable solely from, and secured by, a first pledge of Net Taxes and moneys on deposit in the Special Tax Fund (and the designated accounts therein but excluding the Administrative Expenses Account) established and held under the Indenture.

Net Taxes consist of a portion of the Special Taxes levied on the taxable property in the District pursuant to the Rate and Method. The Indenture defines “Net Taxes” as Gross Taxes minus amounts set aside to pay Administrative Expenses not to exceed the Administrative Expenses Requirement. The term “Gross Taxes” means (i) the amount of all Special Taxes received by Improvement Area No. 1 of the District, together with (ii) the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions. The Administrative Expenses Requirement is initially equal to \$40,000 per Fiscal Year, or such lesser amount as may be designated in writing by the District.

Funds and accounts to be established and held under the Indenture include the Special Tax Fund (and the Interest Account, the Principal Account, the Redemption Account, the Reserve Account and the Administrative Expenses Account therein), the Surplus Fund, the Rebate Fund, and the Costs of Issuance Fund). *Except for moneys deposited in the Special Tax Fund (and the Interest Account, the Principal Account, the Redemption Account, the Reserve Account therein), none of the other funds and accounts held under the Indenture are pledged to repayment of the Bonds.*

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT. NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE CITY OF INDIO, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE PORTION OF THE SPECIAL TAXES THAT CONSTITUTE NET TAXES UNDER THE INDENTURE, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS.

The Special Taxes

The District covenants in the Indenture that, subject to the Rate and Method, the District will levy Special Taxes on taxable property within Improvement Area No. 1 in an amount equal to the Special Tax Requirement for Improvement Area No. 1. The District further covenants that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District’s authority to levy the Special Tax on taxable property within Improvement Area No. 1 for so long as the Bonds are Outstanding. See “— Rate and Method” below and “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The Rate and Method provides that Special Taxes will be collected in the same manner as the general *ad valorem* taxes on real property; provided that the District may provide for direct collection of Special Taxes in certain circumstances.

The Special Tax levy is limited to the maximum rates set forth in the Rate and Method. In the event of a significant delinquency, the Trustee may have to make a draw on the Reserve Account to pay interest of, and principal on, the Bonds then coming due. The Bonds are not subject to acceleration under the Indenture. Although Special Taxes, when levied, will constitute a lien on parcels subject to taxation within Improvement Area No. 1 of the District, it does not constitute a personal indebtedness of the owners of such parcels. There is no assurance that such property owners will be financially able to pay the Special Taxes or that they will pay such taxes even if financially able to do so. See

“BONDOWNERS’ RISKS” for a discussion of certain factors which may affect property owners’ ability or willingness to pay Special Taxes.

Rate and Method

The following is a summary of certain provisions of the Rate and Method. This summary does not purport to be comprehensive and reference should be made to the Rate and Method reprinted in Appendix B. Please refer to Appendix B for definitions of capitalized terms used but not defined in this summary section.

General. The District is authorized to levy Special Taxes (as defined in the Rate and Method) on taxable property within Improvement Area No. 1 commencing Fiscal Year 2005-06 and for each Fiscal Year thereafter, in an amount necessary to meet the Special Tax Requirement for Improvement Area No. 1, subject to the Maximum Special Tax, pursuant to the Rate and Method.

“Special Tax Requirement for Improvement Area No. 1” means that amount required in any Fiscal Year within Improvement Area No. 1 of the District to pay: (i) annual debt service on all outstanding Bonds due in the calendar year which commences in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) an amount equal to any anticipated shortfall due to Special Tax delinquency in the prior Fiscal Year; and (v) any amounts required to establish or replenish any reserve funds for the outstanding Bonds; less (vi) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

The Rate and Method apportions the total amount of Special Taxes to be collected each Fiscal Year among the Parcels of Taxable Property in the District. Taxable Property is divided into four categories, Developed Property, Undeveloped Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to the Rate and Method. Each Fiscal Year, each Assessor’s Parcel within the District is assigned the appropriate classification for purposes of levying the Special Taxes and are subject to the levy of Special Taxes in accordance with the Rate and Method. See “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.”

Parcels of Developed Property shall further be classified as Residential Property or Non-Residential Property. A Parcel of Residential Property will further be classified as Single Family Property or Multifamily Residential Property. Single Family Property will be further categorized based on the Residential Floor Area for such Parcel, which is determined based on the square footage shown on the building permit for such Single Family Property. There are two zones established within Improvement Area No. 1 and such zones are taxed at different rates (“Zone A” and “Zone B”). See “THE DISTRICT – Developed Properties by Residential Floor Area Classes” herein for a description of the Maximum Special Taxes per unit and the projected Fiscal Year 2015-16 Special Tax per unit, by category of Residential Floor Area for each of Zone A and Zone B.

Each Fiscal Year, the City will levy the Special Tax on all Taxable Property within Improvement Area No. 1 until the amount of Special Taxes equals the Special Tax Requirement for Improvement Area No. 1 in accordance with the following steps:

First: The Special Tax will be levied on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rate as needed to satisfy the Special Tax Requirement for Improvement Area 1, Zone A and Zone B;

Second: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area No. 1, Zone A and Zone B, after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property within Improvement Area No. 1, Zone A and Zone B, at up to 100% of the Maximum Special Tax for Undeveloped Property; and

Third: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area No. 1 after the first two steps have been completed, then for each Assessor's Parcel of Developed Property whose Assigned Special Tax is the Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement.

Based on present debt service requirements of the 2005 Bonds and the expected debt service requirements of the Bonds, only the First step above, pertaining to the levy of the Special Tax upon Parcels of Developed Property, is necessary to levy an amount equal to the Special Tax Requirement for Improvement Area No. 1. As a result, none of the Parcels classified as "Undeveloped Property" presently are subject to the levy of Special Taxes, even though considered taxable property within Improvement Area No. 1.

No Special Taxes are authorized to be levied on property in Improvement Area No. 2. Only the Special Taxes authorized to be levied on property in Improvement Area No. 1 contribute to the Net Taxes pledged as security for the Bonds.

Prepayment. The Special Tax obligation applicable to any Parcel of Developed Property, and/or Undeveloped Property for which a building permit has been issued, and Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the Rate and Method may be prepaid in full or in part, as described in the Rate and Method. The Special Tax obligation applicable to an Parcel may be made in full and be permanently satisfied only if there are no delinquent Special Taxes with respect to such Parcel at the time of prepayment. An owner of a Parcel intending to prepay the Special Tax obligation must provide the City with written notice of intent to prepay. Following receipt of such notice and a non-refundable deposit for the costs of the District to calculate the prepayment amount, the City or its designee will notify such owner of the prepayment amount for such Parcel A prepayment of Special Taxes will result in an extraordinary redemption of Bonds. See "THE BONDS – Redemption – Extraordinary Redemption."

Certain Limitations. The Special Taxes to be levied on a Parcel in Improvement Area No. 1 in any Fiscal Year will not exceed the Maximum Special Tax applicable to such Assessor's Parcel. In addition, notwithstanding the Maximum Special Tax and the various elements included in the Special Tax Requirement for Improvement Area No. 1 (as defined in the Rate and Method), the Mello-Roos Act and the Rate and Method impose certain limitations upon the ability of the District to increase the Special Taxes levied on Parcels in Improvement Area No. 1 used for private residential purposes. Specifically, under no circumstances will the Special Taxes levied against any Parcel of Residential Property in Improvement Area No. 1 be increased, as a consequence of delinquency or default by the owner of any other Parcel within Improvement Area No. 1, by more than ten percent (10%) per Fiscal Year above the amount that would have been levied in that Fiscal Year had there never been any such delinquencies or defaults.

Furthermore, certain property in the District, whether or not developed, are excluded from the levy of Special Taxes. As defined in the Rate and Method, "Exempt Property" that is excluded from the levy of Special Taxes in Improvement Area No. 1 includes (i) Public Property, (ii) Property Owner's Association Property, and (iii) Golf Course Property. The Special Taxes will be levied subject to the Special Tax Requirement for Improvement Area No. 1 for each year that any Bonds are outstanding.

Covenant to Foreclose

Pursuant to Section 53356.1 of the Mello-Roos Act, in the event of any delinquency in the payment of the Special Taxes in the District, the District may order the institution of a superior court action to enforce the lien therefore within specific time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the provisions of the Mello-Roos Act, such judicial foreclosure action is not mandatory. However, the District covenants in the Indenture that the District will take the following actions:

Individual Delinquencies. The District will commence foreclosure actions against any parcel with either (A) at least four (4) consecutive installments of delinquent Special Taxes or (B) delinquent Special Taxes in excess of \$7,500 on any one parcel, in each instance by the December 1 following the close of each Fiscal Year in which such Special Taxes were due; and

Aggregate Delinquencies. The District will commence foreclosure actions against all parcels with delinquent Special Taxes by the December 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year;

provided, however, that the District may elect to defer foreclosure proceedings on any parcel so long as the amount on deposit in the Reserve Account is at least equal to the Reserve Requirement and such delinquencies will not cause moneys in the Reserve Account to be withdrawn on the next succeeding Interest Payment Date

Any foreclosure proceedings commenced as described above could be stayed because of bankruptcy proceedings by or against the owner of the delinquent property. See “BONDOWNERS’ RISKS – Bankruptcy and Foreclosure Delay.” No assurance can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. If a judgment of foreclosure and an order of sale is obtained, the judgment creditor (*i.e.*, the District commencing such action) must cause a notice of levy to be issued. Under current law, a judgment debtor (*i.e.*, the property owner) has 120 days (or in some cases a shorter period) from the date of service of the notice of levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, such debtor’s only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made.

No assurance can be given that real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Mello-Roos Act does not require the District to purchase or otherwise acquire any real property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Mello-Roos Act specifies that the Special Taxes will have the same lien priority in the case of delinquency as for *ad valorem* property taxes. See “BONDOWNERS’ RISKS – Cumulative Burden of Parity Liens, Taxes and Special Assessments.”

If the Reserve Account is depleted and delinquencies in the payments of Special Taxes continue, there could be a default or delay in the payment by such District with respect to the Bonds, pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds, if any. Within the limits of the Rate and Method and the Mello-Roos Act, the District may adjust the Special Taxes levied within Improvement Area No. 1 in future years to provide any amount, taking into account such delinquencies, required to pay debt service on such Bonds and to replenish the Reserve Account. There is, however, no assurance that the maximum Special Tax rates under the Rate and Method will be

at all times sufficient to collect the amounts required to be paid on Bonds. See “Special Taxes” and “Rate and Method” above and “BONDOWNERS’ RISKS – Levy and Collection of Special Taxes.”

No Parity Bonds Except for Refunding Bonds

Pursuant to the Indenture, no additional bonds may be issued on a parity with the Bonds except for the purpose of refunding all or a portion of the then Outstanding Bonds or refunding bonds which were issued to refund the Bonds (such refunding Bonds being referred to as the “Parity Bonds”). The issuance of Parity Bonds is subject to the conditions precedent set forth in the Indenture. See “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Reserve Account

The Trustee will establish and maintain a Reserve Account within the Special Tax Fund. Upon issuance of the Bonds, \$1,227,806.26* will be deposited in the Reserve Account. Such amount is equal to the initial Reserve Requirement. Reserve Requirement is defined as that amount, as of any date of calculation, equal to the least of (i) 10 percent 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 percent of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any. Except as otherwise provided in the Indenture, moneys in the Reserve Account will be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account are insufficient therefor or moneys in the Redemption Account are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund.

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expenses Account, Interest Account, Principal Account and Redemption Account, the Trustee will transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District will include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

In connection with an optional redemption or extraordinary redemption of Bonds or Parity Bonds, or a partial defeasance of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement (taking into account Outstanding Bonds and Parity Bonds after such redemption or partial defeasance).

To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of, and interest on, the Bonds or the Parity Bonds, as applicable, in the final

* Preliminary; subject to change.

Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred as described in the foregoing paragraphs will be withdrawn from the Reserve Account on the Business Day before each Interest Payment Date and will be transferred to Interest Account of the Special Tax Fund; provided, however, to the extent that, as of a date ninety (90) days prior to the next occurring Interest Payment Date, the amount on deposit in the Reserve Account is equal to or greater than the aggregate remaining principal payments to be paid on the Bonds and any Parity Bonds, any and all amounts in the Reserve Account may be applied to effect an optional redemption of all Outstanding Bonds pursuant to the Indenture and any Outstanding Parity Bonds in accordance with any Supplemental Indenture.

THE DISTRICT

General Description of the District

The District was established in accordance with the Mello-Roos Act and is a legally constituted governmental entity separate and apart from the City. Pursuant to the Mello-Roos Act, the City Council acts as the legislative body of the District. The District was formed to finance the public capital improvements serving the property within the District.

The District consists of approximately 364.96 gross acres comprising two improvement areas on which the partially-developed, gated Terra Lago golf-course community is located. The master-planned community of Terra Lago is located less than one mile north of Interstate-10 at the northeast corner of Golf Center Parkway and Avenue 43. The community is bisected by the Coachella Canal, an extension of the All American Canal, that runs southeastward through the property. The northern edge of the Terra Lago community abuts the base of the foothills at the northern boundary of the City of Indio. The property extends southward to Avenue 44.

Improvement Area No. 1 is significantly developed and consists of approximately 174.80 acres, approximately 135.75 acres of which pertain to residential development and 39.05 acres of which are open space and include a reservoir. Of the 636 single-family residential parcels in Improvement Area No. 1, 523 parcels or approximately 82.23% have been developed and are owned by residential end users, and 113 parcels have yet to be developed and are bank-owned following the demise of the former master developer during the Great Recession. **The Net Taxes pledged for payment of the Bonds derive from Special Taxes levied on Improvement Area No. 1 of the District.**

Improvement Area No. 2 consists of approximately 190.16 acres, which includes golf course property. In June 2013, Terra Lago Indio LLC, a Delaware limited liability company and affiliate of K. Hovnanian Homes (the "Area No. 2 Developer"), acquired all of the taxable property in Improvement Area No. 2 of the District, which had previously been owned by the same former master developer of Improvement Area No. 1 and also became bank-owned following the former master developer during the Great Recession. Prior to acquisition by the Area No. 2 Developer, the real property within Improvement Area No. 2 was undeveloped. The Area No. 2 Developer has commenced construction and sales of homes in its development known as "Four Seasons at Terra Lago," an active adult community within Improvement Area No. 2. Pursuant to a project master plan for the Four Seasons at Terra Lago development approved by the City Council in September 2013, the total number of residential single-family lots within Improvement Area No. 2 was established at 826 lots. Approximately 13 product styles are available, ranging from 1,559 to 2,747 square feet, and as of June 2015 are offered at sales prices ranging from \$231,990 to \$348,990, respectively. As of July 1, 2015, 46 single-family residences had been completed in Improvement Area No. 2. In February 2014, following receipt of a written request of the Area No. 2 Developer and by adoption of a resolution, the City Council extinguished the lien of the special taxes for Improvement Area No. 2 authorized by the Rate and Method, which had never

previously been levied. No special tax bonds have ever been issued with respect to Improvement Area No. 2, and pursuant to the resolution adopted in February 2014, a Notice of Cessation of Special Tax and Extinguishment of Lien for all parcels within Improvement Area No. 2 of the District was recorded on February 20, 2014. **The Net Taxes pledged for payment of the Bonds derive from Special Taxes levied on Improvement Area No. 1 of the District. No Special Taxes are authorized to be levied on property in Improvement Area No. 2 of the District. Only the Special Taxes authorized to be levied on property in Improvement Area No. 1 contribute to the Net Taxes pledged as security for the Bonds.**

History of District Proceedings

The City Council adopted Resolutions No. 8956 and 8957 (together, the “Resolutions of Intention”), on May 18, 2005, pursuant to which it designated the respective territories comprising Improvement Area No. 1 and Improvement Area No. 2 of the District and declared its intention to establish the District, to authorize the levy of special taxes within each improvement area, and to incur bonded indebtedness within each improvement area of the District. The Resolutions of Intention set forth, among other things, the proposed Rate and Method of apportionment of special taxes for each improvement area of the District. Following a public hearing duly called and held pursuant to the Mello-Roos Act, on July 20, 2005 the City Council adopted Resolutions No. 9025 and 9026 (together, the “Resolution of Formation”), establishing the District and approving the Rate and Method, declaring the necessity to incur bonded indebtedness within each improvement area of the District, and calling a special election of qualified electors each of Improvement Area No. 1 and Improvement Area No. 2 to authorize the incurrence of bonded indebtedness and the levy of Special Taxes for the respective improvement area. In an election held on July 20, 2005, the former master developer, constituting the sole landowner and qualified elector within Improvement Area No. 1 of the District, voted to (i) approve the Rate and Method, and (ii) authorize Improvement Area No. 1 of the District to incur up to \$30,000,000 of bonded indebtedness. On August 3, 2005, the City Council adopted Ordinance No. 1442 authorizing the levy of Special Taxes in Improvement Area No. 1 of the District.

On September 15, 2005, the District issued the 2005 Bonds in the original aggregate principal amount of \$26,330,000. Pursuant to Resolution No. 9153 adopted by the City Council on September 20, 2006, the bonded indebtedness authorization for Improvement Area No. 1 was amended and reduced to \$26,500,000.

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Development Status

The following table sets forth the development status, respective assessed values, and respective Special Tax obligations of parcels classified as “Developed Property” and “Undeveloped Property” within Improvement Area No. 1 of the District for the past six Fiscal Years.

TABLE 1
DEVELOPMENT STATUS
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1)

Fiscal Year	Development Status	Number of Parcels	Assessed Land	Assessed Structure	Total Assessed Value	Special Tax	Percent of Special Tax	Remaining Bonded Debt	Value to Debt Ratio
2010-11	Developed	444	\$22,989,785	\$68,463,092	\$91,452,877	\$1,460,271	92.88%	\$20,206,044	4.52:1
	Undeveloped	192	6,128,192	130,000	6,258,192	111,982	7.12%	1,548,956	4.04:1
2011-12	Developed	492	\$22,005,778	\$72,006,984	\$94,012,762	\$1,587,610	100%	\$21,295,000	4.14:1
	Undeveloped	144	4,066,424	0	4,066,424	0	0%	0	n/a
2012-13	Developed	523	\$21,987,387	\$72,307,498	\$94,294,885	\$1,587,156	100%	\$20,800,000	4.53:1
	Undeveloped	113	3,515,313	0	3,515,313	0	0%	0	n/a
2013-14	Developed	523	\$23,719,884	\$77,181,184	\$100,901,068	\$1,584,660	100%	\$20,285,000	4.97:1
	Undeveloped	113	3,585,551	0	3,585,551	0	0%	0	n/a
2014-15	Developed	523	\$26,004,129	\$86,005,908	\$112,010,037	\$1,586,274	100%	\$19,750,000	5.67:1
	Undeveloped	113	3,601,739	0	3,601,739	0	0%	0	n/a
2015-16	Developed	523	\$27,657,497	\$92,043,306	\$119,700,803	\$1,264,859 ^{(1)*}	100%	\$16,030,000*	7.47:1*
	Undeveloped	113	3,673,635	0	3,673,635	0	0%	n/a	n/a

* Preliminary; subject to change.

(1) Assumes \$40,000 of Administrative Expenses are included in the Special Tax levy for Fiscal Year 2015-16.

Source: Willdan Financial Services.

Developed Properties by Residential Floor Area Classes

As described in “SECURITY FOR THE BONDS – Rate and Method” and shown in “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES”, developed single-family residential parcels are classified in various “Residential Floor Area” categories for the purpose of determining the applicable Special Tax. The following table reflects the estimated Fiscal Year 2015-16 tax obligation, by Residential Floor Area category, for all 523 parcels presently classified as “Developed Property” in Zone A and Zone B, respectively, of Improvement Area No. 1 of the District pursuant to the Rate and Method. As can be seen from Table 2 below, the projected Fiscal Year 2015-16 Special Tax per unit will be levied at approximately 74.57%* of the corresponding Maximum Special Tax for Developed Property.

TABLE 2
DEVELOPED PROPERTIES BY RESIDENTIAL FLOOR AREA CLASSES
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1)

Land Use	Residential Floor Area	No. of Units	Maximum Special Tax per Unit	Projected FY 2015-16 Special Tax per Unit*	Total Projected FY 2015-16 Special Tax Levy ^{(1)*}	Percent of Total*
Zone A						
Single Family Residential	1,626 to 1,750 sq. ft.	44	\$2,341.88	\$1,746.35	\$ 76,839.48	7.26%
Single Family Residential	1,751 to 1,900 sq. ft.	30	2,593.71	1,934.13	58,024.03	5.48
Single Family Residential	1,901 to 1,950 sq. ft.	36	2,677.65	1,996.73	71,882.22	6.79
Single Family Residential	1,951 to 2,100 sq. ft.	58	2,738.91	2,042.42	118,460.25	11.20
Single Family Residential	2,151 to 2,250 sq. ft.	46	2,977.12	2,220.06	102,122.66	9.65
Single Family Residential	2,251 to 2,300 sq. ft.	3	3,056.53	2,279.27	6,837.81	0.65
Single Family Residential	2,301 to 2,400 sq. ft.	41	3,215.34	2,397.70	98,305.60	9.29
Single Family Residential	2,401 to 2,500 sq. ft.	52	3,260.71	2,431.52	126,439.16	11.95
Single Family Residential	2,551 to 2,600 sq. ft.	22	3,414.99	2,546.58	56,024.84	5.30
Single Family Residential	2,601 to 2,850 sq. ft.	84	3,800.68	2,834.18	238,071.28	22.50
Single Family Residential	Over 2,850 sq. ft.	33	4,263.49	3,179.30	104,916.99	9.92
Totals		449			\$1,057,924.32	100.00%
Zone B						
Single Family Residential	1,626 to 1,750 sq. ft.	8	\$3,067.87	\$2,287.72	\$ 18,301.79	8.84%
Single Family Residential	1,751 to 1,900 sq. ft.	3	3,319.71	2,475.52	7,426.56	3.59
Single Family Residential	1,901 to 1,950 sq. ft.	4	3,403.65	2,538.12	10,152.46	4.91
Single Family Residential	1,951 to 2,100 sq. ft.	11	3,544.31	2,643.02	29,073.20	14.05
Single Family Residential	2,101 to 2,150 sq. ft.	6	3,646.40	2,719.14	16,314.82	7.88
Single Family Residential	2,151 to 2,250 sq. ft.	11	3,703.11	2,761.43	30,375.72	14.68
Single Family Residential	2,251 to 2,300 sq. ft.	7	3,964.03	2,956.01	20,692.04	10.00
Single Family Residential	Over 2,300 sq. ft.	24	4,168.21	3,108.26	74,598.15	36.05
Totals		74			\$206,934.75	100.00%

* Preliminary; subject to change.

(1) Assumes \$40,000 of Administrative Expenses are included in the Special Tax levy for Fiscal Year 2015-16.

Source: Willdan Financial Services.

Estimated Tax Burden

The following tables reflect the estimated Fiscal Year 2015-16 tax obligation for a sample parcel classified as “Developed Property” in Zone A and Zone B, respectively, of Improvement Area No. 1 of the District pursuant to the Rate and Method.

TABLE 3
ESTIMATED FISCAL YEAR 2015/16 TAX OBLIGATION
FOR A SAMPLE DEVELOPED PROPERTY PARCEL, ZONE A
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1, ZONE A)

	Projected Amount
Total Assessed Value (Based on a Home Size of 1,800 Square Feet)	\$164,537.00
Homeowners Exemption	(7,000.00)
	\$157,537.00
Ad Valorem Property Taxes:	
Basic Levy (1.00%)	\$ 1,575.37
Desert Sands Unified School District (0.10984%)	173.04
Desert Community College (0.02325%)	36.63
Coachella Valley Water District (0.10000%)	157.54
	\$ 1,942.57
Assessment, Special Taxes & Parcel Changes:	
Indio Solid Waste Charge	\$ 187.44
Coachella Valley Mosquito & Rifa	6.06
Coachella Valley Rec & PK AD93-1	9.90
Coachella V Rec & PK AD01-1 Indio	25.02
Valley Sanitary Sewer Service	270.00
Indio Waste Recycle Surcharge	2.76
CFD 2004-1 Indio ⁽¹⁾	447.60
CFD 2004-3 Terra Lago Indio	1,934.13 ^{*(2)}
	\$ 2,882.91 *
Projected Total Property Tax	\$ 4,825.48 *
Projected Effective Tax Rate	2.93% *

* Preliminary; subject to change.

(1) Special taxes for the City of Indio CFD No. 2004-1 (Police, Fire and Paramedic Services) increase annually by 2%.

(2) Based on preliminary par amount of the Bonds of \$16,030,000. Assumes \$40,000 of Administrative Expenses are included in the Special Tax levy for Fiscal Year 2015-16.

Source: Willdan Financial Services.

TABLE 4
ESTIMATED FISCAL YEAR 2015/16 TAX OBLIGATION
FOR A SAMPLE DEVELOPED PROPERTY PARCEL, ZONE B
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1, ZONE B)

	Projected Amount
Total Assessed Value (Based on a Home Size of 1,800 Square Feet)	\$245,107.00
Homeowners Exemption	(7,000.00)
	\$238,107.00
Ad Valorem Property Taxes:	
Basic Levy (1.00%)	\$ 2,381.07
Desert Sands Unified School District (0.10984%)	261.54
Desert Community College (0.02325%)	55.36
Coachella Valley Water District (0.10000%)	238.11
	\$ 2,936.07
Assessment, Special Taxes & Parcel Changes:	
Indio Solid Waste Charge	\$ 187.44
Coachella Valley Mosquito & Rifa	6.06
Coachella V Rec & PK AD01-1 Indio	25.44
Valley Sanitary Sewer Service	270.00
Indio Waste Recycle Surcharge	2.76
CFD 2004-1 Indio	447.60
CFD 2004-3 Terra Lago Indio	\$ 2,475.52 ^{*(2)}
	\$ 3,414.82[*]
Projected Total Property Tax	\$ 6,350.89[*]
Projected Effective Tax Rate	2.59%[*]

* Preliminary; subject to change.

(1) Special taxes for the City of Indio CFD No. 2004-1 (Police, Fire and Paramedic Services) increase annually by 2%.

(2) Based on preliminary par amount of the Bonds of \$16,030,000. Assumes \$40,000 of Administrative Expenses are included in the Special Tax levy for Fiscal Year 2015-16.

Source: Willdan Financial Services.

Assessed Valuation of Property in the District; Current and Estimated Value-to-Lien Ratio

The value of the land within Improvement Area No. 1 of the District is significant because in the event of a delinquency in the payment of Special Taxes the District may foreclose only against delinquent parcels. Based on assessed values on the County Assessor's tax roll as of July 21, 2015, the property subject to Special Tax is valued at \$123,374,438, and \$119,700,803 taking into account only taxable property currently classified as Developed Property. Dividing the respective assessed values by the sum of the principal amount of the Bonds of \$16,030,000^{*} results in an estimated assessed value-to-lien ratio of 7.70^{*} to 1 for all taxable property in the District (i.e., Undeveloped Property and Developed Property), and 7.47^{*} to 1 for all property in Improvement Area No. 1 upon which Special Taxes are presently levied (i.e., Developed Property only). These ratios exclude overlapping debt of the Desert Recreation and Park Reassessment District No. 01-1 and overlapping general obligation bond debt of overlapping public entities that is secured by the parcels in Improvement Area No. 1. If such overlapping reassessment and

* Preliminary; subject to change.

general obligation bond debt is included in the lien component of the value-to-lien ratio, the estimated assessed value-to-lien ratio is 7.07* to 1 for all taxable property in the District (i.e., Undeveloped Property and Developed Property), and 6.86* to 1 for all property in Improvement Area No. 1 upon which Special Taxes are presently levied (i.e., Developed Property only). Parcels currently classified as “Undeveloped Property,” although taxable, are not currently subject to a levy of Special Taxes, in accordance with the steps prescribed by the Rate and Method for levying the Special Tax. See “SECURITY FOR THE BONDS – Rate and Method” and Section D of “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” However, at the times that the parcels presently classified as “Undeveloped Property” under the Rate and Method are developed and reclassified as “Developed Property,” they will become subject to the levy of Special Taxes in accordance with the Rate and Method.

Not all areas within the District share the same value-to-lien ratio. The following table shows the current value-to-lien ratios based on the assessed value of the parcels in Improvement Area No. 1 and taking into account that parcels currently classified as “Undeveloped Property,” although taxable, are not currently subject to a levy of Special Taxes. See “SECURITY FOR THE BONDS – Rate and Method,” Section D of “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES,” and “BONDOWNERS’ RISKS – Risks of Real Estate Secured Investments Generally; Land Values.”

TABLE 5
SUMMARY OF VALUE-TO-LIEN RATIOS
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1)

<i><u>Value-to- Lien Category</u></i>	<i><u>No. of Parcels</u></i>	<i><u>2015/16 Total Assessed Values</u></i>	<i><u>Maximum Special Tax</u></i> ⁽²⁾	<i><u>Estimated 2015/16 Special Tax</u></i> ^{(3)*}	<i><u>Percent of Maximum Special Tax</u></i> [*]	<i><u>Bonded Debt</u></i> ^{(4)*}	<i><u>Average Value to Bonded Debt</u></i> ^{(4)*}
N/A ⁽¹⁾	113	\$ 3,673,635	\$ 240,841	\$ 0	0.00%	n/a	n/a
3:1 to 4.99:1	14	2,212,122	137,976	37,867	2.99	\$ 479,897	4.61
5.0:1 to 6.99:1	167	33,581,688	1,218,044	418,142	33.06	5,299,255	6.34
7.0:1 to 8.99:1	284	67,309,975	309,150	676,631	53.49	8,575,183	7.85
9.0:1 to 11.99:1	57	15,873,531	26,760	129,040	10.20	1,635,373	9.71
Over 12.0:1	1	723,487	4,263	3,179	0.25	40,292	17.96
Total	636	\$123,374,438	\$1,937,034	\$1,264,859	100.00%	\$16,030,000	7.47 ⁽⁵⁾

- (1) There are 113 parcels currently classified as Undeveloped Property under the Rate and Method. Pursuant to Section D. of the Rate and Method (Method of Apportionment of the Special Tax), none of the parcels currently classified as Undeveloped Property presently are subject to the levy of Special Taxes, even though considered taxable property within Improvement Area No. 1. See “SECURITY FOR THE BONDS – Rate and Method” and Section D of “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.”
- (2) Maximum Special Tax based on Section C. of the Rate and Method. However, in accordance with the Mello-Roos Act, Section D. of the Rate and Method further limits the amount of the Special Tax that may be levied on parcels used for private residential purposes as a consequence of delinquency or default by the owner of any other parcel in Improvement Area No. 1 (i.e., not more than 10% above the amount that would have been levied absent the prior year delinquency). See “SECURITY FOR THE BONDS – Rate and Method – *Certain Limitations*” and “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” See column “(C)” of Table 8 herein for a depiction of the effect of Section D. of the Rate and Method upon the maximum amount of special taxes that may be levied in a Fiscal Year.
- (3) Assumes \$40,000 of Administrative Expenses are included in the Special Tax levy for Fiscal Year 2015-16.
- (4) Does not include total overlapping debt of \$9,795 applicable to Desert Recreation and Park Reassessment District No. 01-1 or overlapping general obligation bond debt. See Table 6 under the caption “– Direct and Overlapping Debt.”
- (5) Excludes value of the 113 parcels currently classified as Undeveloped Property; including such property, the ratio is 7.70 to 1.

Source: Willdan Financial Services.

* Preliminary; subject to change.

The property values, the direct and overlapping debt and the total tax burden on property vary among parcels within the District. The foregoing value-to-lien ratios only represent estimated averages for the property within the District. The actual ratios for individual parcels within the District may vary significantly.

Direct and Overlapping Debt

Properties in the District are within the jurisdiction of a number of overlapping local agencies providing public governmental services. In addition to paying the Special Taxes, property owners within in the District will be obligated to pay *ad valorem* property taxes and other existing and future additional special taxes, assessments and fees imposed by the overlapping agencies. The following table is a summary of the direct and overlapping debt (the “Debt Report”) payable from taxes or special assessments for properties in the District as of June 1, 2015. The Debt Report generally includes long term obligations sold in the public credit markets by local agencies whose boundaries overlap the boundaries of the District in whole or in part. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Debt Report is included for general information purposes only. The District has not verified, and does not make any representation regarding, the completeness or accuracy of the Debt Report.

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Table 6
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1)
Direct and Overlapping Debt Summary

2014-15 Local Secured Assessed Valuation: \$115,611,776

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/1/15</u>	
Desert Community College District General Obligation Bonds	0.170%	\$ 523,666	
Desert Sands Unified School District General Obligation Bonds	0.333	889,807	
City of Indio Community Facilities District No. 2004-3, I.A. No. 1	100.	19,750,000	(1)
Desert Recreation and Park Reassessment District No. 01-1 1915 Act Bonds	1.107	9,795	(2)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$21,173,268	
 <u>OVERLAPPING GENERAL FUND DEBT:</u>			
Riverside County General Fund Obligations	0.051%	\$ 325,291	
Riverside County Pension Obligation Bonds	0.051	163,440	
Riverside County Board of Education Certificates of Participation	0.051	936	
Desert Sands Unified School District Certificates of Participation	0.333	204,329	
City of Indio Certificates of Participation	1.714	671,717	
Desert Recreation and Park District Certificates of Participation	0.268	4,428	
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$1,370,141	
Less: Riverside County supported obligations		4,304	
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$1,365,837	
 GROSS COMBINED TOTAL DEBT		\$22,543,409	(3)
NET COMBINED TOTAL DEBT		\$22,539,105	

- (1) Remaining outstanding 2005 Bonds to be refunded by the Bonds.
(2) Desert Recreation and Park Reassessment District No. 01-1 1915 Act Bonds mature 9/2/2016.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2014-15 Assessed Valuation:

Direct Debt (\$19,750,000)	17.08%
Total Direct and Overlapping Tax and Assessment Debt....	18.31%
Gross Combined Total Debt.....	19.50%
Net Combined Total Debt.....	19.50%

Source: California Municipal Statistics Inc.

As reflected in Table 6 above, as of June 1, 2015, there is only one overlapping assessment district (i.e., Desert Recreation and Park Reassessment District No. 01-1) and no community facilities districts that have issued long term obligations in the public credit markets affecting the property in Improvement Area No. 1. The District does not have any control over the amount of additional debt payable from taxes or assessments levied on such properties which may be incurred in the future by other governmental agencies with jurisdiction over all or a portion of Improvement Area No. 1. To the extent such additional indebtedness is payable from assessments, special taxes levied pursuant to the Mello-Roos Act or other taxes secured by real property, such assessments, special taxes and other taxes will be secured by the property within Improvement Area No. 1. The debt attributable to a property in Improvement Area No. 1 could increase without any corresponding increase in the value of such property. The imposition of such additional indebtedness could reduce the willingness or the ability of property owners in the District to pay the Special Taxes when due. See "BONDOWNERS' RISKS – Cumulative Burden of Parity Liens, Taxes, Special Assessments."

Tax Delinquencies

The following table illustrates the historical Special Tax and cumulative Special Tax delinquencies for property located within the District for Fiscal Years 2010-11 through 2014-15, as of April 30, 2015. See the caption “SECURITY FOR THE BONDS – Covenant to Foreclose” for additional information regarding the District’s foreclosure covenant in the Indenture.

TABLE 7
TAX DELINQUENCIES
CITY OF INDIO COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1)

Fiscal Year	Number of Parcels	Special Taxes	As of	Number of Delinquent Parcels	Delinquent Special Tax Amount	Percent of Special Tax Delinquent	As of	Number of Delinquent Parcels	Delinquent Special Tax Amount	Percent of Special Tax Delinquent
2010-11	636	\$1,572,253	4/30/2011	30	\$51,259	3.26%	4/30/2015	1	\$ 3,763	0.24%
2011-12	492	1,587,610	4/30/2012	39	64,808	4.08	4/30/2015	1	3,746	0.24
2012-13	523	1,587,156	4/30/2013	39	61,705	3.89	4/30/2015	2	7,266	0.46
2013-14	523	1,584,660	4/30/2014	34	52,127	3.29	4/30/2015	5	11,375	0.72
2014-15	523	1,586,274	4/30/2015	31	45,764	2.88	4/30/2015	31	45,764	2.88

Source: Willdan Financial Services.

Projected Debt Service Coverage

The following table shows the estimated debt service coverage for the Bonds through the Bond Year ending September 1, 2035, based on a levy of Special Taxes on only 523 units of Developed Property (*i.e.*, the number of houses completed or for which building permits have been issued as of July 1, 2015) and assuming no further development will occur after such date. The table also assumes that Net Taxes each Fiscal Year will equal (i) Special Taxes, levied at the maximum rate permitted under the Rate and Method for Developed Property when taking into limitations set forth in Section D. of the Rate and Method (see “SECURITY FOR THE BONDS – Rate and Method – Certain Limitations” and footnote (3) under Table 8), less (ii) Administrative Expenses in an amount equal to the Administrative Expenses Requirement (*i.e.*, \$40,000 per Fiscal Year).

The following projections are based on the assumptions noted above and in the footnotes to Table 8 and assuming that there are no optional or extraordinary redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part; any such event may result in special mandatory redemption of the Bonds. See “SECURITY FOR THE BONDS – The Special Taxes” and “THE BONDS – Redemption.” A number of factors and uncertainties (*e.g.*, a higher or lower delinquency rate) could cause actual amounts of Special Taxes levied or collected to differ materially from those set forth herein. See also “BONDOWNERS’ RISKS.”

Table 8
CITY OF INDIO
COMMUNITY FACILITIES DISTRICT NO. 2004-3 (TERRA LAGO)
(IMPROVEMENT AREA NO. 1)

Projected Debt Service Coverage Based on Estimated Maximum Developed Special Taxes ⁽¹⁾
Assuming No Further Development After July 1, 2015
Bonds Years ending September 1, 2016 through September 1, 2035

(A) Bond Year Ending September 1	(B) Units of Residential Developed Property ⁽²⁾	(C) Estimated Maximum Developed Special Taxes ⁽³⁾⁽⁴⁾	(D) Administrative Expenses ⁽⁴⁾	(E) Net Taxes⁽⁵⁾ (Column C - Column D)	(F) Bonds Annual Debt Service ^{(6)*}	(G) Debt Service Coverage (Column E / Column F) ^{(7)*}
2016	523	\$1,391,345	\$40,000	\$1,351,345	\$1,224,859	1.10x
2017	523	1,392,332	40,000	1,352,332	1,225,756	1.10x
2018	523	1,391,012	40,000	1,351,012	1,224,556	1.10x
2019	523	1,389,472	40,000	1,349,472	1,223,156	1.10x
2020	523	1,391,452	40,000	1,351,452	1,224,956	1.10x
2021	523	1,392,332	40,000	1,352,332	1,225,756	1.10x
2022	523	1,392,112	40,000	1,352,112	1,225,556	1.10x
2023	523	1,394,587	40,000	1,354,587	1,227,806	1.10x
2024	523	1,389,637	40,000	1,349,637	1,223,306	1.10x
2025	523	1,394,037	40,000	1,354,037	1,227,306	1.10x
2026	523	1,390,737	40,000	1,350,737	1,224,306	1.10x
2027	523	1,391,012	40,000	1,351,012	1,224,556	1.10x
2028	523	1,389,087	40,000	1,349,087	1,222,806	1.10x
2029	523	1,389,087	40,000	1,349,087	1,222,806	1.10x
2030	523	1,393,047	40,000	1,353,047	1,226,406	1.10x
2031	523	1,389,747	40,000	1,349,747	1,223,406	1.10x
2032	523	1,394,553	40,000	1,354,553	1,227,775	1.10x
2033	523	1,393,068	40,000	1,353,068	1,226,425	1.10x
2034	523	1,389,355	40,000	1,349,355	1,223,050	1.10x
2035	523	1,388,915	40,000	1,348,915	1,222,650	1.10x

* Preliminary; subject to change.

(1) Does not take into account any prepayment by property owners or any optional or extraordinary redemption of Bonds prior to maturity.

(2) Based on building permits issued for Residential Property (as defined in the Rate and Method) as of July 1, 2015.

(3) As defined in the Rate and Method, the "Maximum Special Tax" when applied to all parcels classified as "Developed Property" thereunder is \$1,696,193. See Table 5 herein. The Maximum Developed Special Taxes shown in Column C above are based on a levy of such portion of the Assigned Special Tax (as defined in the Rate and Method) against all Developed Property in Improvement Area No. 1 equal to the Special Tax Requirement for Improvement Area No. 1 (as defined in the Rate and Method) in the Fiscal Year ending in the applicable Bond Year, assuming the maximum allowable amount under the Mello-Roos Act and the Rate and Method is included in the Special Tax Requirement for Improvement Area No. 1 with respect to anticipated shortfalls due to Special Tax delinquency in the prior Fiscal Year (i.e., 10% above the amount that would have been levied absent the prior Fiscal Year delinquency). See "SECURITY FOR THE BONDS – Rate and Method – Certain Limitations."

(4) Assumes Administrative Expenses will equal the Administrative Expenses Requirement of \$40,000 per Fiscal Year.

(5) Estimated Assigned Special Taxes less Administrative Expenses.

(6) Annual principal and interest on the Bonds.

(7) Net Taxes divided by Bonds Annual Debt Service.

Source: *Stifel, Nicolaus & Company, Incorporated.*

BONDOWNERS' RISKS

INVESTMENT IN THE BONDS INVOLVES ELEMENTS OF RISK. THE FOLLOWING SECTION DESCRIBES CERTAIN SPECIFIC RISK FACTORS AFFECTING THE PAYMENT AND SECURITY OF THE BONDS. THE FOLLOWING DISCUSSION OF RISKS IS NOT MEANT TO BE AN EXHAUSTIVE LIST OF THE RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS AND THE ORDER OF DISCUSSION OF SUCH RISKS DOES NOT NECESSARILY REFLECT THE RELATIVE IMPORTANCE OF THE VARIOUS RISKS. POTENTIAL INVESTORS ARE ADVISED TO CONSIDER THE FOLLOWING FACTORS ALONG WITH ALL OTHER INFORMATION IN THIS OFFICIAL STATEMENT IN EVALUATING THE BONDS. THERE CAN BE NO ASSURANCE THAT OTHER RISK FACTORS NOT DISCUSSED UNDER THIS CAPTION WILL NOT BECOME MATERIAL IN THE FUTURE.

Levy and Collection of Special Taxes

Rate and Method Limitations. The principal source of debt service payment for the Bonds is the proceeds of the annual levy and collection of Special Taxes against property within Improvement Area No. 1 of the District. The Special Tax levy, however, is limited to the maximum rates set forth in the Rate and Method. In the event of significant Special Tax delinquencies in Improvement Area No. 1, no assurance can be given that Special Taxes will in fact be collected in amounts, together with other money available in the Special Tax Fund (including the Reserve Account), that will be sufficient to pay debt service on the Bonds when due.

No Relationship Between Annual Tax Levy and Property Value. Because the Special Tax levy is not based on property value, the amount of Special Taxes levied rarely, if ever, results in a uniform relationship between the value of a particular parcel of property and the amount of Special Taxes levied against such parcel. Thus, there is rarely, if ever, a uniform relationship between the value of the parcels of real property in Improvement Area No. 1 subject to Special Taxes and their proportionate share of debt service on the Bonds. The following are some of the factors that might cause the levy of Special Taxes on any particular parcel of property in Improvement Area No. 1 to vary from the Special Taxes that might otherwise be expected:

- Failure of the property owners to pay Special Taxes and delays in the collection of or inability to collect the Special Taxes by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels.
- Reduction in the number of parcels of property subject to the Special Tax levy for such reasons as acquisition by a governmental entity and failure (or refusal) of such governmental entity to pay Special Taxes 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 taxed parcels.

Generally, Special Taxes will be collected in the same manner as ordinary *ad valorem* property taxes are collected. Special Taxes will be generally subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ordinary *ad valorem* property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County.

If any Special Tax installment becomes delinquent, the District can foreclose only upon the parcel or parcels with respect to which the Special Tax is delinquent. If sales or foreclosures of property are

necessary, there could be a delay in the transfer of Special Taxes to the Trustee pending such sales or the prosecution of foreclosure proceedings and, if the Reserve Account is depleted, there could be a delay in payments to the Owners of the Bonds. See “Bankruptcy and Foreclosure Delays” and “SECURITY FOR THE BONDS – Proceeds of Foreclosure Sales.”

Limited Obligations of the District

Funds for the payment of the principal of, and the interest on, the Bonds are derived from the Special Tax levied against the taxable property in Improvement Area No. 1 of the District. While a projected coverage factor has been considered in structuring the annual debt service on the Bonds (see “SECURITY FOR THE BONDS – Projected Debt Service Coverage”), the amount of Special Taxes that will be collected by the District could become insufficient to pay principal of, or interest on, the Bonds in certain circumstances. If there is a non-payment by property owners or insufficient proceeds are received from the foreclosure sale of property within Improvement Area No. 1 due to delinquencies, a default on the Bonds may follow upon the depletion of the Reserve Account. The Bonds do not represent the general obligations of the District. The District’s obligation with respect to payment on the Bonds is limited to Net Taxes and moneys on deposit in the Special Tax Fund (and designated accounts therein, but excluding the Administrative Expenses Account) held by the Trustee under the Indenture. Neither the faith and credit nor the taxing power of the City, the County or the State or any of its political subdivisions is pledged to the payment of the Bonds.

Special Tax Payments Not Personal Obligations of Property Owners

An owner of property subject to the Special Tax levy is not personally obligated to pay Special Taxes. Rather, Special Taxes represent an obligation only against the parcels of property in Improvement Area No. 1 of the District subject to the Special Tax levy. If, after a default in the payment of Special Taxes and a foreclosure sale by the District, the resulting proceeds are insufficient, taking into account other obligations also constituting a parity lien against such parcels, the District will have no recourse against the owner for the delinquency.

Risks of Real Estate Secured Investments Generally; Land Values

Purchasers of the Bonds will be subject to the risks generally incident to an investment secured by real estate, including but not limited to, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of Improvement Area No. 1, the supply of or demand for competitive properties in such area, and the market value of the properties in the event of sale or foreclosure, (ii) changes in real estate tax rates and other operating expenses, government rules (including, without limitation, zoning laws, growth control initiatives and laws relating to threatened and endangered species) and fiscal policies, and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses. These risks affect the value of the property, as well as the property owners’ willingness and/or ability to pay Special Taxes when due.

The value of land within Improvement Area No. 1 of the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in Special Tax payments and the District commences a foreclosure action on such property, prospective purchasers of the Bonds should not assume that the property within Improvement Area No. 1 could be sold for the assessed value described herein or an amount adequate to pay delinquent Special Taxes. Reductions in property values within Improvement Area No. 1 due to future events, such as a downturn in the economy or the real estate market, events such as earthquakes, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the value of the property in

Improvement Area No. 1 of the District and, thus, the security underlying the revenues from collection of the Special Taxes.

Concentration of Ownership

Currently, RB Terra Lago Holdings, an affiliate of Rabobank, N.A., is the owner of the 113 (or approximately 17.77%) parcels classified as “Undeveloped Property” among the 636 taxable parcels in Improvement Area No. 1 of the District that could be subject to the Special Tax levy. Based on present debt service requirements of the 2005 Bonds and the expected debt service requirements of the Bonds, the Rate and Method presently does not require the District to levy any Special Tax on parcels classified as “Undeveloped Property.” See “SECURITY FOR THE BONDS – Rate and Method.”

However, if such undeveloped parcels are developed in the future by RB Terra Lago Holdings and classified as “Developed Property,” during the period between the issuance of a building permit for such parcels and the sale of the parcels to individual homeowners, RB Terra Lago Holdings would be responsible for any Special Taxes levied on such parcels.

The willingness and ability of RB Terra Lago Holdings, as well as other property owners, to pay property taxes and the Special Taxes could be adversely affected by changes in general or local economic conditions, fluctuations in the real estate market and other factors. Failure of RB Terra Lago Holdings (or any future owner of a significant amount of taxable property within Improvement Area No. 1 of the District) to pay installments of such Special Taxes when due could cause the depletion of the Reserve Account prior to reimbursement from the resale of foreclosed property and repayment of the delinquent Special Tax. In such an event, there may be insufficient revenues from Special Taxes to meet the District’s obligations under the Indenture.

Failure to Develop Property

In assessing the investment quality of the Bonds, prospective purchasers should be aware that undeveloped land is often less valuable than the same land in a developed condition, should it be necessary for the District to foreclose due to the nonpayment of Special Taxes. Therefore, undeveloped land in a community facilities district is generally regarded as less valuable than developed land in terms of security to holders of bonds that are secured by revenues from special taxes levied in such district.

The District can provide no assurances that the parcels within Improvement Area No. 1 currently classified as “Undeveloped Property” will be developed or the timing of such development, if any. There are numerous factors that may contribute to the willingness or ability of the owners of undeveloped parcels to develop such parcels, including but not limited to, the general economic condition of the region or then-existing governmental policies, regulations or growth control initiatives. The occurrence of any event which significantly impacts the ability to develop land in Improvement Area No. 1, or the District generally, may affect the willingness or ability of the property owners to pay the Special Tax installments when due.

Bankruptcy and Foreclosure Delays

Bankruptcy Limiting Remedies of Bondowners. The payment of Special Taxes and the ability of the District to foreclose the lien of a delinquent tax may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting

creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause Special Taxes to become extinguished, bankruptcy of a property owner could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds.

Glasply Marine Industries. On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued an opinion in a bankruptcy case entitled *In re Glasply Marine Industries*, holding that *ad valorem* property taxes levied by a county in the State of Washington after the date that the property owner filed a petition for bankruptcy would not be entitled to priority over the claims of a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed subsequent to the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after the claims of all secured creditors. As a result, the secured creditor was able to foreclose on the subject property and retain all the proceeds from the sale thereof except the amount of the pre-petition taxes. Pursuant to this holding, post-petition taxes would be paid only as administrative expenses and only if a bankruptcy estate has sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would be subject only to current *ad valorem* taxes (*i.e.*, not those accruing during the bankruptcy proceeding).

The *Glasply* decision is controlling precedent in bankruptcy court in the State. If *Glasply* were held to be applicable to Special Taxes, a bankruptcy petition filing would prevent the lien for Special Taxes levied in subsequent fiscal years from attaching so long as the property was part of the estate in bankruptcy, which could reduce the amount of Special Taxes available to pay debt service on the Bonds. However, *Glasply* speaks as to *ad valorem* property taxes, and not special taxes, and no case law exists with respect to how a bankruptcy court would treat the lien for special taxes levied after the filing of a petition in bankruptcy.

On October 22, 1994, Congress enacted 11 U.S.C. § 362(b)(18), which added a new exception to the automatic stay for *ad valorem* property taxes imposed by a political subdivision after the filing of a bankruptcy petition. Under this law, if a bankruptcy petition is filed on or after October 22, 1994, the lien for *ad valorem* property taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. The potential effect of 11 U.S.C. § 362(b)(18) on the Special Taxes depends upon whether a court were to determine that the Special Taxes should be treated like *ad valorem* property taxes for this purpose.

Property Owned by FDIC. The ability of the District to foreclose upon property for delinquent Special Taxes may be limited with respect to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has an interest. On November 26, 1996, the FDIC adopted a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "Policy Statement") (which superseded a prior statement issued by the FDIC and the Resolution Trust Corporation in 1991). The Policy Statement applies to the FDIC when it is liquidating assets in its corporate and receivership capacities. The Policy Statement provides, in part, that FDIC's real property is subject to state and local real property taxes if those taxes are assessed according to the property's value, and that the FDIC is immune from *ad valorem* real property taxes assessed on other bases. The Policy Statement also provides that the FDIC will pay its property tax obligations when they become due and will pay claims for delinquencies as promptly as is consistent with sound business practice and the orderly administration of

the institution's affairs, unless abandonment of the FDIC interest in the property is appropriate. It further provides that the FDIC will pay claims for interest on delinquent property taxes owned at the rate provided under state law, but only to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay for any fines or penalties and will not pay or recognize liens for such amounts. The Policy Statement also provides that 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. No property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, a lien for taxes and interest may attach, but the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

With respect to challenges to assessments, the Policy Statement provides: "The [FDIC] is only liable for state and local taxes which are based on the value of the property during the period for which the tax is imposed, notwithstanding the failure of any person, including prior record owners, to challenge an assessment under the procedures available under state law. In the exercise of its business judgment, the [FDIC] may challenge assessments which do not conform with the statutory provisions, and during the challenge may pay tax claims based on the assessment level deemed appropriate, provided such payment will not prejudice the challenge. The [FDIC] will generally limit challenges to the current and immediately preceding taxable year and to the pursuit of previously filed tax protests. However, the [FDIC] may, in the exercise of its business judgment, challenge any prior taxes and assessments provided that (1) the [FDIC's] records (including appraisals, offers or bids received for the purchase of the property, etc.) indicate that the assessed value is clearly excessive, (2) a successful challenge will result in a substantial savings to the [FDIC], (3) the challenge will not unduly delay the sale of the property, and (4) there is a reasonable likelihood of a successful challenge."

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 simple interest unless the amount of tax is fixed at the time the FDIC acquires its fee simple interest in the property, nor will the FDIC recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Because the Special Taxes are neither *ad valorem* taxes nor special assessments, and because they are levied under a special tax formula under which the amount of the Special Tax is determined each year, the Special Taxes appear to fall within the category of taxes the FDIC generally will not pay under the Policy Statement.

Following the County of Orange bankruptcy proceedings in December 1994, the FDIC filed claims against the County of Orange in the United States Bankruptcy Court and in Federal District Court which challenged the community facilities district special taxes that the County of Orange had levied on FDIC-owned property (and which the FDIC had paid) under the Mello-Roos Act. The Bankruptcy Court ruled that the FDIC was not liable for post-receivership special taxes under the Mello-Roos Act, and that, to the extent paid by the FDIC, special taxes must be refunded. The United States Bankruptcy Appellate Panel of the Ninth Circuit affirmed the decision of the Bankruptcy Court, and in a decision filed on August 28, 2001, the United States Court of Appeals for the Ninth Circuit (the "9th Circuit Court") affirmed the decision of the Bankruptcy Appellate Panel. The 9th Circuit Court, while not specifically asked to decide on the issue, stated in its opinion (published in 262 F.3d 1014) that "the FDIC, as a federal agency, is exempt from the Mello-Roos tax" and quoted Section 53340(c) of the Mello-Roos Act in stating that "'properties or entities' of the federal government are exempt from the tax."

As prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would likely reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale, Owners of the Bonds should assume that the District will be unable to collect Special Taxes relating to, or to foreclose on, any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default by the District in payment on the Bonds. Based upon the County's 2014-15 secured

tax roll, the FDIC does not presently own any of the parcels in Improvement Area No. 1. The District expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

Other Federal Government Interests in Properties. 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 vs. Johnson*, 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeals, Ninth Circuit, held that the City of Los Angeles' foreclosure on property on account of delinquent special assessments, without protecting the federal interest represented by a deed of trust on the property held by the Federal National Mortgage Association (FNMA), was an unconstitutional exercise of state power over property of the United States. The Court held that while the City of Los Angeles was engaging in a valid state function created by state legislation, the valid state function did not render the city's conduct constitutional under the federal Constitution vis-à-vis FNMA, as a federal instrumentality, even though FNMA's stock may be privately-owned. The Court suggested that absent Congressional intent to allow a federal interest to be subject to state law, a federal interest could be protected by excluding the federal interest from the tax foreclosure sale; in effect, the property owners' interest could be subjected to foreclosure sale, but the interest of the federal instrumentality cannot.

Except as to the FDIC with respect to the 2014-15 secured tax roll as described above, 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. There can be no assurance that there would be any buyer at a foreclosure sale if FNMA's or another federal instrumentality's lien could not be foreclosed. In the event delinquent property subject to such a lien could not be sold, there is no assurance that Special Taxes received by the District would be sufficient to pay debt service on the Bonds.

Depletion of Reserve Account

Generally under the Indenture, the Reserve Account is to be maintained at an amount equal to the Reserve Requirement (see "SECURITY FOR THE BONDS – Reserve Account"). Money in the Reserve Account may be used to pay principal of, and interest on, the Bonds in the event that Net Taxes derived from the levy and collection of Special Taxes against property within Improvement Area No. 1 of the District is insufficient for such purpose. If moneys in the Reserve Account are depleted, the Reserve Account can be replenished from the proceeds of the Special Taxes collected by the District that are in excess of the amount required to pay debt service on the Bonds. However, no Reserve Account replenishment from the proceeds of the Special Taxes can occur if such Special Taxes are already being levied at the maximum rates permitted under the Rate and Method and the proceeds from such levy remain insufficient to pay the full debt service on the Bonds. Thus it is possible that the Reserve Account will be depleted and not be replenished by the levy of the Special Taxes.

Disclosure to Future Purchasers

The District has caused a notice of the Special Tax lien to be recorded in the Office of the County Recorder of the County against each Taxable Property in Improvement Area No. 1 of the District on July 20, 2005, as Document No. 2005-0603064. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel or a home within

Improvement Area No. 1 or lending of money secured by property in Improvement Area No. 1 of the District. The Mello-Roos Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a special tax levied pursuant to the Mello-Roos Act of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that, in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Taxes, could adversely affect the willingness or ability of the purchaser or lessor to pay the Special Taxes when due.

Cumulative Burden of Parity Liens, Taxes and Special Assessments

While the Special Taxes are secured by the property in Improvement Area No. 1 of the District subject to the Special Tax levy, the security only extends to the value of such property that is not subject to prior and parity liens and similar claims. Certain direct and overlapping indebtedness payable from taxes and assessments on land within Improvement Area No. 1 of the District are currently outstanding. See the table showing the current direct and overlapping debt for Improvement Area No. 1 under the caption “THE DISTRICT – Direct and Overlapping Debt.” The District does not have any control over the ability of other governmental entities to issue indebtedness secured by *ad valorem* taxes, special taxes or assessments payable from all or a portion of the property within Improvement Area No. 1 of the District.

In general, as long as the Special Taxes are collected on the County tax roll, the Special Taxes and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of the Special Taxes securing the Bonds, the Special Taxes will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a *pro rata* basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of property, regardless of whether the non-governmental liens were in existence at the time of the Special Tax levy or not, this result may not apply in the case of bankruptcy. The existence of other property taxes, special taxes and special assessments may reduce the value-to-lien ratio of the affected parcels and increases the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes or the principal of, and interest on, the Bonds when due.

Exempt Property

Certain properties in Improvement Area No. 1 of the District are exempt from Special Taxes in accordance with the Rate and Method. The Rate and Method provides that no Special Tax will be levied on (i) Public Property, (ii) Property Owner’s Association Property, and (iii) Golf Course Property. See “SECURITY FOR THE BONDS – Rate and Method – *Certain Limitations*” and “APPENDIX B – RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Pursuant to Section 53317.3 of the Mello-Roos Act, property within Improvement Area No. 1 of the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Taxes, will continue to be subject to Special Taxes. It is possible that property in Improvement Area No. 1 of the District acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from Special Taxes. In addition, although Section 53317.5 of the Mello-Roos Act provides that if property subject to Special Taxes is acquired by a public entity through eminent

domain proceedings, the obligation to pay Special Taxes with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Mello-Roos Act have not been tested, meaning that such property could become exempt from Special Taxes. In the event that additional property is dedicated to public entities, this additional property could become exempt from Special Taxes.

Natural Calamities; Earthquakes; Flood Hazard Zone Designation

The future value of the property subject to the Special Tax levy can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public and private improvements on such property and the continued habitability and enjoyment of such private improvements. Such natural occurrences include, without limitation, geological conditions such as earthquakes, landslides, floods, wildfires, droughts or tornadoes.

Regarding flood hazard zones, the Public Health and Safety Element of the City's General Plan, dated October 6, 1993, states that the soils surface characteristics within the majority of the City are of low stormwater runoff potential, with high infiltration rates even when thoroughly saturated. In some areas of the City, however, there are a few stratifications of claypan or clay layer that have very poor infiltration rates and are subject to more frequent flood inundation and may cause "standing water" problems. The General Plan states that although the City does not have a comprehensive drainage system inventory, the City has adopted several flood safety programs and conditions for development to provide for flood protection, such as mandatory stormwater runoff retention facilities and dry well basins for development projects, a requirement that retention facilities must be designed for the 100-year event and provide for drainage within 24 hours, and a requirement that the 100-year water surface elevation must not encroach within 10 feet of building structures. Although high intensity thunderstorms can occur at any time of the year, the General Plan notes that these storms are generally isolated phenomena and are most common from July to September. Natural flooding in the areas north of Whitewater River is typically limited to properties upstream of I-10, while other areas subject to historical natural flooding include Avenue 45 at Van Buren Street, Highway 111 at Calhoun Street, and Avenues 47 and 48 between the Coachella Valley Stormwater Channel and the Southern Pacific Railroad. According to the City's Planning Department, the District is not located within an area identified in the General Plan as a historical flooding area nor is it within a 100-year flood plain as mapped on a Flood Hazard Boundary or Flood Insurance Rate Map. For more information, see the Public Health and Safety Element of the City's General Plan on file with the City Clerk.

As to seismicity, the Public Health and Safety Element states that in the vicinity of Indio, the San Andreas fault zone consists of two branches that converge southeastward: the Indio Hills fault northeast of the hills and the Banning/Mission Creek fault southwest of the hills. The Banning/Mission Creek fault is considered to be the most active tectonic feature in the region, and the Indio Hills are a direct result of the uplift along these two faults, as well as having been sliced by right lateral movement on the faults. Due to the presence of these fault zone branches, in the City, the General Plan states that the majority of the region within the City has been assigned by the County of Riverside a seismic ground shaking rating of V (on a scale of I to V), with the southwestern portion of the City having a rating of IV. The County Planning Department has established land use suitability guidelines based on the seismic ground shaking value assigned to the region. In an area underlain by relatively thick and soft alluvial sediments and with a seismic ground shaking intensity rating of IV or greater, such as the City, the criteria restrict construction of structures such as nuclear-related systems, major dams, explosives or hazardous materials manufacturing, electric power inter-tie systems, power plants, aqueducts, sewer treatment plants, major pipelines, etc. During a large seismic event, liquefaction may occur in loose unconsolidated, cohesionless soils, which are saturated in moisture. This process involves the transformation of the soils from a solid to liquid state as a result of increase pore pressure and reduced effective stress. The degree of hazard to

the City from liquefaction ranges from none to severe. The General Plan identifies areas within the City boundaries that are considered susceptible to liquefaction to generally include all of the areas east of Monroe Street and the regions of the Shadow Hills area and the Indio Ranchos Annexation Area as those in which liquefaction may occur during a large seismic event. A site specific fault investigation report was prepared by Pacific Soils Engineering Inc. in October, 2005 that studied the potential impacts of liquefaction on the property within the District. According to the Report, “perched water levels have risen to levels where seismically induced liquefaction poses a potential hazard.” The Report identified appropriate mitigation for proposed structures and infrastructure that have been incorporated into project grading and home construction. Such mitigation measures include over-excavation during grading, installation of geofabrics as needed, and stiffened (usually post-tensioned) foundation systems. As to the 113 lots within Improvement Area No. 1 currently classified as “Undeveloped Developed” pursuant to the Rate and Method, the recommended mitigation measures will be shown on the grading and/or building plans and would be reviewed by the City Engineer and Building and Safety Plan Examiners and Inspectors to assure compliance. For more information, see the Public Health and Safety Element of the City’s General Plan on file with the City Clerk and the Fault Investigation Report for the Terra Lago Project on file with the City’s Planning Department.

No assurance can be given that an earthquake, flood, or other natural disaster affecting the District will never occur. The occurrence of one or more natural disasters could occur and could result in damage to improvements of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances there could be significant delinquencies in the payment of Special Taxes, and the value of the taxed properties may well depreciate or disappear.

Hazardous Substances

Claims regarding hazardous substances can have an adverse impact on the value of property within Improvement Area No. 1 of the District and the security for the Bonds. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is one of the most well-known and widely applicable of these laws, but California laws with respect to hazardous substances are also generally regarded as 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 a parcel in Improvement Area No. 1 of the District be affected by a hazardous substance is that the marketability and value of the parcel may be reduced by the costs of remedying the condition, because the purchaser, upon becoming the owner, will become obligated to remedy the condition just as is the seller. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the financial and legal liability of a property owner (and thus affect such owners’ ability or willingness to pay Special Taxes when due), as well as the value of the property that is realized upon foreclosure. The assessed values described herein do not take into account the possible reduction in marketability and value of any property by reason of possible liability of the owner or operator for the remedy of a hazardous substance condition of the parcel. The District makes no representation and gives no assurance that such hazardous substance liabilities or conditions do not currently exist or will not arise in the future.

Right to Vote on Taxes Act; Other Ballot Measures and Initiatives

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

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 Mello-Roos Act includes a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Mello-Roos 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 Mello-Roos 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 California law 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.”

The initiative power also is limited by the United States Constitution’s prohibition against State or local laws “impairing the obligation of contracts.” The Bonds represent a contract between the District and the Bondowners secured by the Special Taxes. Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the 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. The District has covenanted to not reduce the maximum Special Tax rates for Improvement Area No. 1 of the District unless certain conditions set forth in the Indenture are satisfied. See “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Like its antecedents, the Initiative is likely to undergo both judicial and legislative scrutiny before its impact on the District and its obligations can be determined. Certain provisions of the Initiative may be examined by the courts for their constitutionality under both State and federal constitutional law. The District is not able to predict the outcome of any such examination.

The foregoing discussion of the Initiative should not be considered an exhaustive or authoritative treatment of the issues relating thereto. The District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of the Initiative on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

The Initiative was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process. Other initiatives may be adopted in the future which may affect the collection of fees, taxes and other types of revenues by local agencies such as the District. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives and, ultimately, affect the cash-flow in the payment of the outstanding Bonds.

Limitations on Remedies; No Acceleration

Remedies available to Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of, and interest on, the Bonds, or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, or similar laws generally affecting the enforcement of creditors' rights. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. Lack of remedies may entail risks of delay, limitation, or modification of Bondowner rights. Judicial remedies, such as foreclosure and enforcement of covenants, are subject to exercise of judicial discretion. A California court may not strictly apply certain remedies or enforce certain covenants if it concludes that application or enforcement thereof would be unreasonable under the circumstances and it may delay the application of such remedies and enforcement.

Investment of Funds

The Reserve Account and all other funds and accounts held under the Indenture are required to be invested in certain Authorized Investments, as defined in the Indenture. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." All investments, including Authorized Investments, authorized by law from time to time for investments by the District contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, decline in market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture could have a material adverse effect on the security for the Bonds.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Indenture. The Indenture does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the Bonds were to be includable in gross income for purposes of federal income taxation, the Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Tax. See "THE BONDS – Redemption."

Secondary Market

There can be no assurance 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. Occasionally, because of general market conditions 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, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

ABSENCE OF LITIGATION

To the best of the District's knowledge, there is no lawsuit or claim pending or threatened against the District seeking to restrain or enjoin the issuance, sale or delivery of the Bonds, the application of the proceeds of the Bonds in accordance with the Indenture, the levy and collection of Special Taxes by the District, the application of Net Taxes and other moneys pledged under the Indenture to pay debt service on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, or the Indenture, or contesting the powers of the District or its authority with respect to the Bonds or its ability to perform its obligations under the Indenture.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the District will enter into the District Continuing Disclosure Agreement, for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the District and the balances of certain funds relating to the Bonds, no later than March 31 of each year, commencing with the report for the 2015-16 fiscal year (the "District Annual Report"), and to provide notices of the occurrence of certain enumerated events, if deemed by the District to be material.

The District Annual Report will be filed with the Municipal Securities Rulemaking Board ("MSRB"), through its the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board, at www.emma.msrb.org. The nature of the information to be provided by the District in the Annual Report and the notices of material events is set forth under the caption "APPENDIX F – FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT."

In connection with the 2005 Bonds, the District previously entered into a continuing disclosure agreement (the "Prior Continuing Disclosure Agreement"), pursuant to which the District agreed to provide certain financial information and operating data relating to the 2005 Bonds (the "Updated Financial and Operating Data") and audited financial statements of the City. The District has not failed in any material respect during the past five years to file Updated Financial and Operating Data pursuant to the Prior Continuing Disclosure Agreement.

Within the past five years, audited financial statements of the City were sometimes filed after the February 15 due date set forth in the Prior Continuing Disclosure Agreement: 5 days late in 2014, 43 days late in 2012, and 454 days late in 2011. However, as reflected in "APPENDIX F – FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT," audited financial statements of the City are provided solely to comply with the Securities Exchange Commission staff's interpretation of the Rule. Except for the Net Taxes and certain moneys in the Special Tax Fund (and designated accounts therein, but excluding the Administrative Expenses Account) established under the Indenture, no funds or assets of the City are required to be used to pay debt service on the Bonds, and the City is not obligated to advance available funds to cover any delinquencies. Nonetheless, Willdan Financial Services, the dissemination agent for the District, has indicated that they will be more proactive in working with appropriate staff of the City and the District to ensure timely filing with the MSRB of City audited financial statements under the District Continuing Disclosure Agreement.

LEGAL MATTERS

The legality of the issuance of the Bonds is subject to the approval of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Bond Counsel's opinions with respect to the Bonds will be substantially in the form set forth in APPENDIX C of this Official

Statement. Certain legal matters also will be passed on for the District by Richards, Watson & Gershon, as Disclosure Counsel and City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. The fees and expenses of Bond Counsel, Disclosure Counsel, and Underwriter's Counsel are contingent upon the sale and delivery of the Bonds.

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to their date of issue. These requirements include, but are not limited to, provisions which limit how the proceeds of the Bonds may be spent and invested, and generally require that certain investment earnings be rebated on a periodic basis to the United States of America. The Agency has made certifications and representations and have covenanted to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law and assuming the accuracy of such certifications and representations by the Agency and compliance with such covenants, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code, and (ii) the Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Code and, therefore, interest on the Bonds is not a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Bond Counsel is also of the opinion that under existing law interest on the Bonds is exempt from State of California personal income taxes. Bond counsel expresses no opinion as to any other tax consequences regarding the Bonds.

Under the Code, a portion of the interest on the Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. The exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals eligible for the earned income tax credit. Bond Counsel will express no opinion regarding these and other such consequences.

Bond Counsel has not undertaken to advise in the future whether any circumstances or events occurring after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. No assurance can be given that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds, will not contain provisions which could eliminate, or directly or indirectly reduce the benefit of the exclusion of interest on the Bonds from gross income for Federal income tax purposes, or have an adverse effect on the market value or marketability of the Bonds.

For example, recent presidential and legislative proposals would eliminate, reduce or otherwise alter the tax benefits currently provided to certain owners of state and local government bonds, including

proposals that would result in additional federal income tax on taxpayers that own tax-exempt obligations if their incomes exceed certain thresholds. Investors in the Bonds should be aware that any such future legislative actions (including federal income tax reform) may retroactively change the treatment of all or a portion of the interest on the Bonds for federal income tax purposes for all or certain taxpayers. In such event, the market value of the Bonds may be adversely affected and the ability of holders to sell their Bonds in the secondary market may be reduced. The Bonds are not subject to special mandatory redemption, and the interest rates on the Bonds are not subject to adjustment, in the event of any such change.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

Certain requirements and procedures contained or referred to in relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Bond, or the interest thereon, if any such change occurs or action is taken upon the advice or approval of bond counsel other than Richards, Watson & Gershon, A Professional Corporation.

If 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) is less than the stated redemption price at maturity of such Bond, the difference constitutes original issue discount, the accrual of which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant yield method over the term of each such Bond and the basis of each Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Purchasers who acquire Bonds with original issue discount are advised that they should consult with their own independent tax advisors with respect to the state and local tax consequences of owning such Bonds.

If the issue price of a Bond is greater than the stated redemption price at maturity of such Bond, the difference constitutes original issue premium, the amortization of which is not deductible from gross income for Federal income tax purposes. Original issue premium is amortized over the period to maturity of such Bond based on the yield to maturity of that Bond (or, in the case of a Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Bond), compounded semiannually. For purposes of determining gain or loss on the sale or other disposition of such Bond, the purchaser is required to decrease such purchaser's adjusted basis in such Bond by the amount of premium that has amortized to the date of such sale or other disposition. As a result, a purchaser may realize taxable gain for Federal income tax purposes from the sale or other disposition of such Bond for an amount equal to or less than the amount paid by the purchaser for that Bond. A purchaser of that Bond in the initial public offering at the issue price for that Bond who holds it to maturity (or, in the case of a callable Bond, to its earlier call date that results in the lowest yield on that Bond) will realize no gain or loss upon its retirement.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If an owner of a Bond is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Prospective purchasers of the Bonds should consult their own independent tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the respective prices indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Agency or the owners of the Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Agency as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Bonds.

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

UNDERWRITING

Stifel, Nicolaus & Company, Incorporated (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$_____ (which is equal to \$_____ as the principal amount of the Bonds, less an original issue discount of \$_____, and less an Underwriter's discount of \$_____). The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover of this Official Statement, which prices may subsequently change without any requirement of prior notice.

NO RATING

The District has not applied and does not contemplate applying to any rating agency for an assignment of rating on the Bonds.

MISCELLANEOUS

All of the preceding descriptions and summaries of the Bonds, the Indenture, the Rate and Method, the Mello-Roos Act, other applicable legislation, agreements and 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 District for further information in connection therewith.

This Official Statement is submitted only in connection with the sale of the Bonds by the District. This Official Statement does not constitute a contract with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

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

**CITY OF INDIO COMMUNITY FACILITIES
DISTRICT NO. 2004-3 (TERRA LAGO)**

By: _____
Mayor of the City of Indio

APPENDIX A

GENERAL INFORMATION ABOUT THE CITY OF INDIO AND THE COUNTY OF RIVERSIDE

The following information concerning the City of Indio and the County of Riverside is included only for the purpose of supplying general demographic and economic information regarding the community. The Bonds are secured and will be paid solely from Net Taxes and certain funds and accounts held under the Indenture as described in the forepart of this Official Statement. The Bonds are not a debt of the City, the County, the State or any of its political subdivisions (other than the District) and none of the City, the County, the State, or any of its political subdivisions (other than the District), are liable therefor.

General Information

The City of Indio (the “City”) was incorporated in 1930 and encompasses approximately 33 square miles. It is located in the East Coachella Valley, 30 miles southeast of Palm Springs and its neighboring communities include Indian Wells, La Quinta and Palm Desert to the west and Coachella and Mecca to the east. Known as the “City of Festivals,” Indio hosts multiple annual festivals, such as the Coachella Valley Music and Arts Festival (Coachellafest), the Stagecoach Country Music Festival, Riverside County Fair & Date Festival, Palm Springs Kennel Club Dog Show, Southwest Arts Festival and the Indio International Tamale Festival, drawing more than one million people to the City annually. The City’s ability to draw and host worldwide festivals is based on being home to the Riverside County Fairgrounds and the Empire Club Polo Grounds (site of Coachellafest).

Governmental Services

Indio, a general law city, was incorporated in 1930. The City has a council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of City business and the coordination of all departments of the City. The City Council is composed of a Mayor and four members elected bi-annually at large to four-year alternating terms. The City employs a staff of approximately 233 full-time equivalent employees.

The City provides a broad range of services to its citizens which include police and fire protection, water service, trash collection, street construction and maintenance, parks and recreation, planning and zoning, housing and community development, building inspection and general and administrative support services. It cooperates with Riverside County in the provision of flood control. The City maintains eleven parks and the Coachella Valley Recreation District operates a 39,000 square foot comprehensive recreational facility in the City.

Climate

The climate of the Coachella Valley is influenced by the surrounding geography. High mountain ranges on three sides contribute to its unique and year-round warm climate, with some of the warmest winters west of the Rocky Mountains. Indio has a warm winter/hot summer climate. Its average annual high temperature is 89.5 degrees Fahrenheit and average annual low is 62.1 degrees. Summer highs above 108 degrees are common and sometimes exceed 120 degrees, while summer night lows often stay above 82 degrees. Winters are warm with daytime highs, often between 68-86 degrees. Under four inches of annual precipitation are average, with typically over 348 days of sunshine per year. The mean annual temperature is 75.8 degrees.

Population

The City's estimated population on January 1, 2015, was 84,201. The following table shows the estimated past population data for the City.

CITY OF INDIO, CALIFORNIA

<u>Date</u>	<u>Population</u>	<u>Date</u>	<u>Population</u>
January 1, 2004	56,655	January 1, 2010	75,263
January 1, 2005	62,024	January 1, 2011	76,817
January 1, 2006	66,670	January 1, 2012	78,065
January 1, 2007	70,948	January 1, 2013	81,415
January 1, 2008	74,007	January 1, 2014	82,375
January 1, 2009	74,590	January 1, 2015	84,201

Source: Demographic Research Unit, California State Department of Finance.

Transportation

Interstate 10 connects Indio with Los Angeles, San Diego and Phoenix, Arizona. State Highways 86 and 111 provide access to neighboring communities and Palm Springs.

Commercial rail service to Indio is provided by Southern Pacific Railroad.

Air cargo and passenger flight services are provided at the Palm Springs Airport and at nearby Bermuda Dunes and Thermal Airports.

Assessed Valuation and Tax Collection

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in each City as of the preceding January 1. For assessment and collection purposes, property is classified either as secured or unsecured and is listed accordingly on separate parts of the assessment roll. The Secured rolls is that part of the assessment roll containing State-assessed public utilities property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the unsecured roll.

Property Taxes on the secured roll are due in two installments, on November 1 and February 1 of the Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10 respectively, and a 10% penalty attaches to any delinquent payment. Property becomes tax-defaulted if property taxes are not fully paid by July 1 of the Fiscal Year and such property becomes subject to sale by the County Tax Collector if it remains tax-defaulted for five years. Tax-defaulted property may be redeemed by payment of delinquent taxes, the 10% delinquency penalty, and a redemption penalty of 1.5% per month.

Property taxes on the unsecured roll are due as of March 1 and become delinquent, if unpaid, on August 31, of the Fiscal Year. A 10% penalty attaches to the delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 30 of the Fiscal Year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office, in order to obtain a lien on certain property of the

taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

A ten-year history of the City's assessed valuation is as follows:

CITY OF INDIO
Assessed Value and Estimated Actual Value of Taxable Property
(amounts expressed in thousands (000's))

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Other Property	Less: Tax-Exempt Property	Total Taxable Assessed Value
2014	\$4,596,084	\$778,639	\$232,313	\$ 709,675	\$87,181	\$6,229,530
2013	4,265,362	762,283	239,808	714,989	90,074	5,892,368
2012	4,335,337	744,572	248,495	743,900	87,436	5,984,868
2011	4,472,376	659,381	250,854	1,061,776	85,653	6,358,734
2010	4,598,619	888,537	255,978	942,327	85,167	6,600,294
2009	5,411,298	444,512	228,211	1,432,652	83,936	7,432,737
2008	5,397,921	358,429	193,611	1,173,690	68,199	7,055,452
2007	4,136,642	306,118	122,931	1,083,542	76,109	5,573,124
2006	2,925,420	280,621	108,080	771,412	73,006	4,012,527
2005	1,934,495	260,013	91,402	650,153	50,651	2,885,412

Source: City of Indio Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014, citing HdL, Coren & Cone.

Largest Local Property Taxpayers

Set forth below are the twenty largest local secured taxpayers in the City based on the 2013-14 secured property tax roll. These taxpayers represent approximately 5.60% of the total taxable assessed valuation in the City of \$6,229,530,000.

	<u>Property Owner</u>	<u>2013-14 Assessed Valuation</u>	<u>% of Total (1)</u>
1.	Worldmark The Club	\$ 59,444,889	0.95%
2.	Jackson 42	47,039,038	0.76
3.	JFK Memorial Hospital	40,651,370	0.65
4.	Time Warner Entertainment	36,984,705	0.59
5.	Trendwest Resorts Inc.	35,929,879	0.58
6.	Polo Square Partners	34,777,033	0.56
7.	ALJACKS	26,644,595	0.43
8.	JDG Properties	25,389,289	0.41
9.	Target Corporation	23,538,505	0.38
10.	Smoketree Apartments	18,683,161	0.30
		<u>\$349,082,464</u>	<u>5.60%</u>

Source: City of Indio Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014, citing HdL, Coren & Cone.

Taxable Transactions

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions is presented in the following table.

CITY OF INDIO Valuation of Taxable Transactions ⁽¹⁾

Year	# of Permits (Retail)	Retail Stores	# of Permits (Total)	Total All Outlets
2009	1,651	460,477	2,065	566,670
2010	2,160	481,228	2,636	582,332
2011	2,240	534,873	2,750	650,281
2012	2,206	606,582	2,740	724,256
2013 ⁽²⁾	2,040	670,393	2,592	806,604

(1) In thousands of dollars ('000s).

(2) Most recent year for which data is available.

Source: California State Board of Equalization.

A summary of historic taxable sales within the City, by type of business, during the past five years for which data is available is shown in the following table.

CITY OF INDIO Taxable Transactions ⁽¹⁾

Business	2009	2010	2011	2012	2013⁽²⁾
Motor Vehicle and Parts Dealers	136,834	139,801	159,363	185,510	217,262
Home Furnishings and Appliance Stores	32,441	#	39,905	42,885	43,433
Building Material and Garden Equipment and Supplies	47,822	48,877	54,369	57,910	66,131
Food and Beverage Stores	41,678	41,166	44,811	54,173	54,746
Gasoline Stations	47,901	54,503	62,092	70,226	81,717
Clothing and Clothing Accessories Stores	17,236	21,698	23,464	24,751	26,298
General Merchandise Stores	37,028	40,654	41,987	41,952	42,384
Food Services and Drinking Places	63,140	64,365	67,813	81,529	88,407
Other Retail Group	<u>36,398</u>	<u>70,163#</u>	<u>41,070</u>	<u>47,647</u>	<u>50,014</u>
Total Retail and Food Services	460,477	481,228	534,873	606,582	670,393
All Other Outlets	<u>106,192</u>	<u>101,104</u>	<u>115,408</u>	<u>117,674</u>	<u>136,211</u>
Total All Outlets	<u>566,670</u>	<u>583,332</u>	<u>650,281</u>	<u>724,256</u>	<u>806,604</u>

Sales omitted because their publication would result in the disclosure of confidential information.

(1) In thousands of dollars ('000s).

(2) Most recent year for which data is available.

Source: California Board of Equalization

Building Activity

The following table provides a summary of the types and number of building permits authorized in the City from calendar years 2009 through 2014.

CITY OF INDIO Annual New Privately-Owned Residential Building Permits

	2009	2010	2011	2012	2013	2014 ⁽¹⁾
Construction cost						
Single Family	\$41,708,535	\$53,184,781	\$47,377,775	\$44,362,670	\$75,844,846	\$100,695,885
Multi-Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>219,862</u>	<u>5,631,960</u>	<u>0</u>
Total Residential	<u>\$41,708,535</u>	<u>\$53,184,781</u>	<u>\$47,377,775</u>	<u>\$44,582,532</u>	<u>\$81,476,806</u>	<u>\$100,695,885</u>
No. of Units						
Single Family	286	244	214	191	352	517
Multi-Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>115</u>	<u>0</u>
Total Units	<u>286</u>	<u>244</u>	<u>214</u>	<u>194</u>	<u>467</u>	<u>517</u>

(1) Most recent annual information available.

Source: U.S. Census Bureau.

Employment and Industry

The City is located in Riverside County. The labor force employment and unemployment figures over the last five years for which data is available for Riverside County are as follows.

	2009	2010	2011	2012	2013 ⁽³⁾
Total Farm	12,400	12,400	12,400	12,900	12,400
Natural Resources and Mining	500	400	400	400	300
Construction	40,400	35,400	34,100	35,200	42,400
Manufacturing	39,000	37,900	38,600	39,500	39,100
Trade, Transportation and Utilities	117,200	117,000	121,500	122,800	128,300
Information	8,500	10,200	7,600	6,300	6,200
Financial Activities	20,700	19,300	18,600	19,300	20,000
Professional and Business Services	53,600	50,300	52,200	53,900	57,400
Educational and Health Services	68,300	67,800	70,700	76,100	83,000
Leisure and Hospitality	68,700	67,700	68,900	72,200	75,800
Other Services	18,100	18,300	18,800	19,200	20,000
Government	109,300	109,200	114,200	112,100	111,200
Total All Industries ⁽¹⁾	<u>556,700</u>	<u>545,800</u>	<u>557,900</u>	<u>570,900</u>	<u>596,200</u>
Total Civilian Labor Force ⁽²⁾	917,100	938,400	939,600	950,600	953,200
Total Unemployment	122,800	136,200	129,200	115,400	97,900
Unemployment Rate	13.4%	14.5%	13.7%	12.1%	10.3%

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers and workers on strike. Columns may not total due to rounding.

(2) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers and workers on strike.

(3) Most recent year for which industry data is available.

Source: California Employment Development Department, Labor Market Information Division.

Largest Employers

The following table lists the ten largest employers in the City:

Employer ⁽¹⁾	Number of Employees	Percent of Total Employment
County of Riverside*	1,295	4.54%
Fantasy Springs Casino *	1,100	3.86%
Desert Sands Unified School District	1,057	3.71%
John F. Kennedy Memorial Hospital**	518	1.82%
City of Indio*	224	0.79%
Cardenas Market	165	0.58%
Target	150	0.53%
Home Depot	133	0.47%
First Ford/Lincoln	133	0.47%
Ralphs	130	0.46%
Total Employment Listed	4,095	17.21%
Total City Employment ⁽²⁾	28,500	

* Includes full and part time.

** Includes full time employees only.

Source: *City of Indio Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014, citing as to (1) City of Indio and MuniServices, LLC, results based on direct correspondence with City's local businesses and (2) State of California Employment Development Department website.*

Services and Community Facilities

Police Department. The City's Police Department includes one Chief of Police, one Captain, four Lieutenants, nine Sergeants, fourteen full-time detectives, forty full-time police officers, and forty-five non-sworn staff. The Police Department is organized into seven divisions: Administration, Field Services, Investigations, Traffic Safety, Support Services (dispatch), Animal Control Services, and Code Enforcement. The department uses traditional and non-traditional programs to address issues and provide service within the community. These programs include: police canine (K-9) teams, police motorcycles, reserve officers, cadets, citizens on patrol, neighborhood watch personnel, public relations, a chaplain program, the Indio Youth Task Force, school resource officers, a Youth Accountability Team, cops and jocks, and a citizen direct message system called "Reverse 911."

Fire Department. The City of Indio currently contracts with the Riverside County Fire Department for fire protection services within the City. The Riverside County Fire Department is administered under contract with the California Department of Forestry and Fire Protection (CAL FIRE). The average fire department response time throughout the City is five minutes or less, 90% of the time. There are presently four functional fire stations located in the City of Indio.

The City also staffs a minimum of one Division Chief and one Battalion Chief daily. The minimum daily staffing for emergency incident response is twenty-four personnel. Ambulance service is provided on a fee for service basis operating three full time paramedic ambulances. The ambulance service is staffed with personnel trained as certified firefighters and advanced life support paramedics. Ambulance personnel respond as part of a two-piece company with the fire engine from three of the City's four fire stations. Because the City contracts with the Riverside County Fire Department, it participates in a Regional Integrated and Cooperative Fire Protection System. In time of need, this makes immediately

available to the Incident Commander and the City, a much deeper pool of regional resources to draw from.

The City of Indio also staffs a Fire Prevention Bureau. Staffing for the Bureau includes a Fire Marshal, Assistant Fire Marshal, Fire Safety Specialist, Fire Systems Inspector, and Office Assistant. The primary function of the Fire Prevention Bureau is to provide services aimed at reducing the risk of fire and injuries to the public. This is accomplished through the adoption and enforcement of codes and ordinances relative to fire and life safety issues and public education programs via schools, community groups, special meetings printed material and the internet.

The fire department also provides the City and the Indio Water Authority Disaster Preparedness readiness, planning, training and recovery. This is primarily accomplished through a full-time Emergency Services Coordinator position. This staff position ensures that the city Emergency Operations Center (EOC) is at the ready, acquires and maintains disaster related supplies and equipment, provides Citizen Emergency Response Team (CERT) training and program oversight, provides training and expertise to numerous local community groups and organizations, provides Emergency Preparedness public education via oral presentations, written material and the internet and is responsible for related grant applications. Through grant acquisition the City currently has two strategically located 100 person disaster relief trailers and is in the application process for two additional CERT trailers. The disaster relief trailer program is run in cooperation with the Riverside County Fire Department Office of Emergency Services (OES) and the American Red Cross.

Health. The City is served by the JFK Memorial Hospital, a 158-bed acute care hospital founded in 1966 and fully accredited by the Joint Commission on Accreditation of Health Care Organizations. The JFK Memorial Hospital is a part of Tenet Healthcare Corporation, California, and offers 24-hour emergency care, orthopedic and joint replacement services using emerging technology, a sports medicine program, cardiovascular services, maternity care and pediatric services, an ambulatory surgery center, imaging services, and an outpatient rehabilitation center. Health services also available in the City are a Renal Advantage Inc. dialysis center, Novak Urgent Care, a Riverside County Department of Mental Health Clinic, and a Riverside County Family Care Center, which provides services including cancer screening, child health services, family planning and exams, HIV/AIDS, immunizations, nutrition, primary care, pregnancy, prescriptions, referrals to specialists, STD testing, tuberculosis skin testing, and senior services.

Cultural and Recreational Resources. Due to the numerous festivals and special events held annually in Indio, the City is known as “The City of Festivals.” The Riverside County Fairgrounds are located at Highway 111 in the heart of the City. Two major annual festivals held in the City are the Riverside County Fair and National Date Festival, held each February at the Riverside County Fairgrounds, and the Indio International Tamale Festival, held each December in the streets of Old Town Indio. Year round, the Riverside County Fairgrounds Grandstand Arena Stadium also is the site for live music concerts, 4x4 monster truck rallies, and rodeo or horse riding events. Starting in 1999, the Coachella Valley Music and Arts Festival has taken place annually at the Empire Polo Club within the City. Commencing in 2007, the Stagecoach Country Music Festival has also been held annually at the Empire Polo Club. Other annual festivals held within the City include the Southwest Arts Festival, the Cabazon Indian National Pow Wow, the Palm Springs Kennel Club’s Annual Dog Show at the Empire Polo Club, and the Family Motor Coach Association’s Annual Western Region RV Rally at the Riverside County Fairgrounds.

Education. The City is served by two public school districts: Desert Sands Unified School District (headquartered in the City of La Quinta) and on the southern part of the City, Coachella Valley Unified School District. Within the Desert Sands Unified School District, eleven public elementary

schools (grades K-5), four public middle schools (grades 6-8), and three public high schools (grades 9-12) are located within the City. Within the Coachella Valley Unified School District, one public elementary (grades K-6) is located within the City.

APPENDIX B

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

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**RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR
COMMUNITY FACILITIES DISTRICT NO. 2004-3
(TERRA LAGO)
CITY OF INDIO, CALIFORNIA**

A Special Tax (all capitalized terms are defined in Section A., Definitions below) shall be applicable to each Parcel of Taxable Property located within the boundaries of Community Facilities District No. 2004-3 (TERRA LAGO). The amount of Special Tax to be levied in each Improvement Area in each Fiscal Year, commencing in Fiscal Year 2005-2006 on a Parcel shall be determined by the City Council of The City of Indio, acting in its capacity as the legislative body of the CFD by applying the appropriate Special Tax for Developed Property, Undeveloped Property and Public Property and/or Property Owner's Association Property that is not Exempt Property as set forth in Sections B., C., and D., below. All of the real property within the CFD, unless exempted by law or by the provisions hereof in Section E., 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 acreage of a Parcel as indicated on the most recent Assessor's Parcel Map, or if the land area is not shown on the Assessor's Parcel Map, the land area shown on the applicable Final Map, parcel map, condominium plan, or other similar instrument.

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

"Administrative Expenses" means all actual or reasonably estimated costs and expenses of the District that are chargeable or allocable to the applicable Improvement Area to carry out its duties as the administrator of the CFD as allowed by the Act, which shall include without limitation, all costs and expenses arising out of or resulting from the annual levy and collection of the Special Tax, trustee fees, rebate compliance calculation fees, and legal issues, or actual, potential or threatened litigation involving the CFD, continuing disclosure undertakings of the District as imposed by applicable laws and regulations, communication with bondholders and normal administrative expenses.

"Administrator" means an official of the District, or designee thereof, responsible for determining the levy and collection of the Special Taxes.

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

"Assigned Special Tax" means the Special Tax for each Land Use Category of Developed Property, as determined in accordance with Section C.1.a., below.

“Backup Special Tax” means the Special Tax of that name described in Section E below.

“Bonds” means any bonds or other indebtedness (as defined in the Act) issued by an Improvement Area of the CFD and secured by the levy of Special Taxes within such Improvement Area.

“Boundary Map” means a map showing the territory area within the boundaries of CFD 2004-3 identified on EXHIBIT “A”

“CFD” means Community Facilities District No. 2004-3 (TERRA LAGO) of the District established pursuant to the Act.

“Council” means The City of Indio City Council

“County” means the County of Riverside.

“Developed Property” means all Parcels of Taxable Property, not classified as Undeveloped Property, Public Property and/or Property Owner’s Association Property that are not Exempt Property pursuant to the provisions of Section E. below: (i) that are included in a Final Map that was recorded prior to January 1st preceding the Fiscal Year in which the Special Tax is being levied and (ii) a building permit for new construction has been issued prior to April 1st preceding the Fiscal Year in which the Special Tax is being levied.

“Exempt Property” means any Parcel, which is exempt from Special Taxes pursuant to Section E., below.

“Final Map” means a subdivision of property by 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 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 starting on July 1 and ending on the following June 30.

“Improvement Area(s)” means Improvement Area 1, Zone A or Zone B or Improvement Area 2, Zone A or Zone B as geographically identified on EXHIBIT “B”.

“Improvement Area 1, Zone A” means the specific area identified on EXHIBIT “B” as Improvement Area 1, Zone A of the CFD.

“Improvement Area 1, Zone B” means the specific area identified on EXHIBIT “B” as Improvement Area 1, Zone B of the CFD.

“Improvement Area 2, Zone A” means the specific area identified on EXHIBIT “B” as Improvement Area 2, Zone A of the CFD.

“Improvement Area 2, Zone B” means the specific area identified on EXHIBIT “B” as Improvement Area 2, Zone B of the CFD.

“Indenture” means the bond 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 Category” means any of the categories listed in Tables 1, 2, 3, 4 and 5.

“Maximum Special Tax” means the maximum Special Tax, determined in accordance with Section C., which can be levied in any Fiscal Year on any Parcel.

“Multifamily Residential Property” means any Parcel of Developed Property that consists of a building or buildings comprised of attached residential units available for rental by the general public, or for sale to an end user, and may be under common management.

“Non-Residential Property” means all Parcels of Developed Property for which a building permit was issued for any type of non-residential use.

“Parcel(s)” means a lot or parcel shown on an Assessor’s Parcel Map with an assigned parcel number valid at the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied.

“Property Owner’s Association Property” means any Parcel within the boundary of the CFD, which, at the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied has been conveyed, dedicated to, or irrevocably dedicated to a property owner association, including any master or sub-association.

“Proportionately” means for (i) Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is the same for all Parcels of Developed Property, and Undeveloped Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to Section E., that the ratio of the actual Special Tax levy per acre to the Maximum Special Tax per acre is the same for all such Parcels.

“Public Property” means any Parcel within the boundary of the CFD which, at the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied, is used for rights-of-way or any other purpose and is owned by, dedicated to, or irrevocably offered for dedication to the Federal Government, the State of California, the County, City or any other local jurisdiction, provided, however, that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified according to its use.

“Residential Floor Area” means all of the square footage of living area of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio or similar area on a Parcel. The determination of Residential Floor Area shall be made by reference to the building permit(s) for the Parcel or similar official document means selected by the Administrator. Once such determination has been made for a Parcel, it shall remain fixed in all future Fiscal Years.

“Residential Property” means all Parcels of Developed Property for which a building

permit has been issued for purposes of constructing one or more residential dwelling units.

“Single Family Property” means all Parcels of Residential Property, other than Multifamily Residential Property, for which building permits have been issued for detached or attached residential units.

“Special Tax(es)” means the special tax to be levied in each Fiscal Year on each Parcel of Taxable Property.

“Special Tax Requirement(s)” means that amount required in any Fiscal Year to pay for Special Tax Requirement for Improvement Area 1, Zone A or Zone B, or for Special Tax Requirement for Improvement Area 2, Zone A or Zone B.

“Special Tax Requirement for Improvement Area 1” means that amount required in any Fiscal Year within Improvement Area 1 of the CFD to pay: (i) annual debt service on all outstanding Bonds due in the calendar year which commences in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) an amount equal to any anticipated shortfall due to Special Tax delinquency in the prior Fiscal Year; and (v) any amounts required to establish or replenish any reserve funds for the outstanding Bonds; less (vi) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

“Special Tax Requirement for Improvement Area 2” means that amount required in any Fiscal Year within Improvement Area 2 of the CFD to pay: (i) annual debt service on all outstanding Bonds due in the calendar year which commences in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) an amount equal to any anticipated shortfall due to Special Tax delinquency in the prior Fiscal Year; and (v) any amounts required to establish or replenish any reserve funds for the outstanding Bonds; less (vi) a credit for funds available to reduce the annual Special Tax levy as determined pursuant to the Indenture.

“Taxable Property” means all Parcels in an Improvement Area which have not prepaid pursuant to Section H., or are not exempt from the Special Tax pursuant to law or Section E., below.

“Undeveloped Property” means all Taxable Property not classified as Developed Property, Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to the provisions of Section E.

A. ASSIGNMENT TO LAND USE CATEGORY

Each Fiscal Year, commencing with the 2005-2006 Fiscal Year, all Parcels of Taxable Property within the CFD shall be categorized into the applicable Improvement Area and classified as either Developed Property, Undeveloped Property, Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions in Section E., and shall be subject to the levy of Special Taxes in accordance with this Rate and Method of Apportionment as determined pursuant to Sections C., and D., below.

Parcels of Developed Property shall further be classified as Residential Property or Non-Residential Property. A Parcel of Residential Property shall further be classified as Single Family Property or Multifamily Residential Property. Single Family Property shall be further categorized based on the Residential Floor Area for such Parcel.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

The Maximum Special Tax for each Parcel of Single Family Property within its applicable Improvement Area shall be the applicable Assigned Special Tax described in Table 1, 2, 3, or 4.

The Maximum Special Tax for each Parcel of Non-Residential Property within its applicable Improvement Area shall be the Assigned Special Tax described in Table 1, 2, 3 or 4.

a. Assigned Special Tax

The Assigned Special Tax for each Parcel of Developed Property within its applicable Improvement Area is shown in Table 1, 2, 3, or 4.

TABLE 1
Assigned Special Taxes for Property within
Improvement Area 1, Zone A

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax Per Taxable Unit
Single Family Property	DU	Less than 1,501 SF	\$1,828.87
Single Family Property	DU	1,501 SF to 1,625 SF	\$2,028.55
Single Family Property	DU	1,626 SF to 1,750 SF	\$2,228.22
Single Family Property	DU	1,751 SF to 1,900 SF	\$2,467.83
Single Family Property	DU	1,901 SF to 1,950 SF	\$2,547.70
Single Family Property	DU	1,951 SF to 2,100 SF	\$2,605.98
Single Family Property	DU	2,101 SF to 2,150 SF	\$2,681.53
Single Family Property	DU	2,151 SF to 2,250 SF	\$2,832.63
Single Family Property	DU	2,251 SF to 2,300 SF	\$2,908.19
Single Family Property	DU	2,301 SF to 2,400 SF	\$3,059.29
Single Family Property	DU	2,401 SF to 2,500 SF	\$3,102.46
Single Family Property	DU	2,501 SF to 2,550 SF	\$3,175.86
Single Family Property	DU	2,551 SF to 2,600 SF	\$3,249.25
Single Family Property	DU	2,601 SF to 2,850 SF	\$3,616.22
Single Family Property	DU	Over 2,850 SF	\$4,056.57
Multi Family Property	Acre	N/A	\$20,460.00
Non Residential Property	Acre	N/A	\$20,460.00

On each July 1, commencing on July 1, 2007, for a period of five (5) years, until July 1, 2012, the Assigned Special Tax shall be increased by one percent (1.00%) of the amount in effect in the prior Fiscal Year.

TABLE 2

Assigned Special Taxes for Property within
Improvement Area 1, Zone B

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax Per Taxable Unit
Single Family Property	DU	Less than 1,501 SF	\$2,519.63
Single Family Property	DU	1,501 SF to 1,625 SF	\$2,719.31
Single Family Property	DU	1,626 SF to 1,750 SF	\$2,918.98
Single Family Property	DU	1,751 SF to 1,900 SF	\$3,158.59
Single Family Property	DU	1,901 SF to 1,950 SF	\$3,238.46
Single Family Property	DU	1,951 SF to 2,100 SF	\$3,372.29
Single Family Property	DU	2,101 SF to 2,150 SF	\$3,469.43
Single Family Property	DU	2,151 SF to 2,250 SF	\$3,523.39
Single Family Property	DU	2,251 SF to 2,300 SF	\$3,771.64
Single Family Property	DU	Over 2,300 SF	\$3,965.91
Multi Family Property	Acre	N/A	\$20,460.00
Non Residential Property	Acre	N/A	\$20,460.00

On each July 1, commencing on July 1, 2007, for a period of five (5) years, until July 1, 2012, the Assigned Special Tax shall be increased by one percent (1.00%) of the amount in effect in the prior Fiscal Year.

TABLE 3

Assigned Special Taxes for Property within
Improvement Area 2, Zone A

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax Per Taxable Unit
Single Family Property	DU	Less than 1,501 SF	\$1,677.77
Single Family Property	DU	1,501 SF to 2,000 SF	\$2,411.70
Single Family Property	DU	2,001 SF to 2,500 SF	\$3,162.90
Single Family Property	DU	Over 2,500 SF	\$3,905.47
Multi Family Property	Acre	N/A	\$22,304.00
Non Residential Property	Acre	N/A	\$22,304.00

On each July 1, commencing on July 1, 2007, for a period of five (5) years, until July 1, 2012, the Assigned Special Tax shall be increased by one percent (1.00%) of the amount in effect in the prior Fiscal Year.

TABLE 4

Assigned Special Taxes for Property within
Improvement Area 2, Zone B

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax Per Taxable Unit
Single Family Property	DU	Less than 2,001 SF	\$3,154.27
Single Family Property	DU	2,001 SF to 2,500 SF	\$3,905.47
Single Family Property	DU	2,501 SF to 3,000 SF	\$4,648.04
Single Family Property	DU	Over 3,000 SF	\$4,665.31
Multi Family Property	Acre	N/A	\$22,304.00
Non Residential Property	Acre	N/A	\$22,304.00

On each July 1, commencing on July 1, 2007, for a period of five (5) years, until July 1, 2012, the Assigned Special Tax shall be increased by one percent (1.00%) of the amount in effect in the prior Fiscal Year.

1. Undeveloped Property

The Maximum Special Tax for each Parcel of Undeveloped Property within each Improvement Area is shown in Table 5 below.

TABLE 5

Undeveloped Property Maximum Special Tax Rate

Improvement Areas	Taxable Unit	Maximum Special Tax Per Acre
1 - Undeveloped Property	Acre	\$20,460.00
2 - Undeveloped Property	Acre	\$22,304.00

On each July 1, commencing on July 1, 2007, for a period of five (5) years, until July 1, 2012, the Maximum Special Tax shall be increased by one percent (1.00%) of the amount in effect in the prior Fiscal Year.

2. Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to the provisions of Section E.

The Maximum Special Tax for each Parcel of Public Property and/or Property Owners

Association Property that is not Exempt Property pursuant to the provisions of Section E., within each Improvement Area shall be the applicable Undeveloped Property Maximum Special Tax rate per Acre in Table 5.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2005-2006 and for each following Fiscal Year, the Council shall levy the Special Tax on all Taxable Property in each Improvement Area until the amount of Special Taxes equals the applicable Special Tax Requirement for each Improvement Area in accordance with the following steps:

1. Improvement Area 1

First: The Special Tax shall be levied on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rate as needed to satisfy the Special Tax Requirement for Improvement Area 1, Zone A and Zone B.

Second: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area 1, Zone A and Zone B, after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property within Improvement Area 1, Zone A and Zone B at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional moneys 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 whose Assigned Special Tax is the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement.

2. Improvement Area 2

First: The Special Tax shall be levied on each Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rate as needed to satisfy the Special Tax Requirement for Improvement Area 2, Zone A and Zone B.

Second: If additional moneys are needed to satisfy the Special Tax Requirement for Improvement Area 2, Zone A and Zone B, after the first step has been completed, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property within Improvement Area 2, Zone A and Zone B at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional moneys 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 whose Assigned Special Tax is the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Taxes levied against any Parcel of Residential Property within an Improvement Area be increased by more than ten percent (10%) per Fiscal Year as a consequence of delinquency or default by the owner of any other Parcel within an Improvement Area of the CFD.

E. BACKUP SPECIAL TAXES

Each Fiscal Year, each Assessor's Parcel of Developed Property classified as Residential Property shall be subject to a Backup Special Tax. In each Fiscal Year, the Backup Special Tax rate for Developed Property classified as Residential Property within a Final Map shall be the rate 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 in each Fiscal Year

R = Maximum Special Tax rate per Acre for Undeveloped Property for the applicable Fiscal Year

A = Acreage of Developed Property classified or to be classified as Residential Property in such Final Map

L = Lots in the Final Map which are classified or to be classified as Residential Property

Notwithstanding the foregoing, if all or any portion of the Final Map(s) described in the preceding paragraph is subsequently changed or modified, then the Backup Special Tax for each Assessor's Parcel of Developed Property classified or to be classified as Residential Property in such Final Map Area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Special Tax anticipated to apply to the changed or modified Final Maps
2. The result of paragraph 1 above shall be divided by the Acreage of Developed Property classified or to be classified as Residential Property which is ultimately expected to exist in such changed or modified Final Map Area, as reasonably determined by the City.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property classified as Residential Property in such changed or modified Final Map Area for all remaining Fiscal Years in which the Special Tax may be levied.

F. EXEMPTIONS

The Council shall not levy Special Taxes on Public Property, Property Owner's Association Property or Golf Course Property within each Improvement Area or Riverside County Assessor Parcel Numbers 601-150-024 and 601-270-018 located within Improvement Area 2 of the CFD. Exempt Property status will be assigned by the Administrator in the chronological order in which property becomes Public Property, Property Owner's Association Property or Golf Course Property.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes and shall be subject to the same penalties, the same procedure, sale and lien priority in the case of delinquency; provided, however, that the Administrator may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on Parcels having delinquent Special Taxes as permitted by the Act if necessary to meet the financial obligations of the CFD.

H. APPEALS

Any taxpayer may file a written appeal of the Special Tax on his/her Parcel(s) with the Administrator, provided that the appellant is current in his/her payments of Special Taxes. During pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The Administrator shall review the appeal, meet with the appellant if the Administrator deems necessary, and advise the appellant of its determination. If the Administrator agrees with the appellant, the Administrator shall grant a credit to eliminate or reduce future Special Taxes on the appellant's Parcel(s). No refunds of previously paid Special Taxes shall be made.

The Administrator shall interpret this Rate and Method of Apportionment and make determinations relative to the annual levy and administration of the Special Tax and any taxpayer who appeals, as herein specified.

I. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"Outstanding Bonds" means all previously issued bonds issued and 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 Maximum Special Taxes.

1. Prepayment in Full

The Maximum Special Tax obligation may only be prepaid and permanently satisfied by a Parcel of Developed Property, and/or Undeveloped Property for which a building permit has been issued, and Public Property and/or Property Owner's Association Property that is not Exempt Property pursuant to Section E. The Maximum Special Tax obligation applicable to

such Parcel may be fully prepaid and the obligation of the Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Parcel at the time of prepayment. An owner of a Parcel intending to prepay the Maximum Special Tax obligation shall provide the Administrator with written notice of intent to prepay, and within 5 business days of receipt of such notice, the Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a prepayment. Within 15 days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the prepayment amount of such Parcel. Prepayment must be made not less than 60 days prior to any redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

	Bond Redemption Amount
plus	Redemption Premium
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
Total: equals	Prepayment Amount

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

1. Confirm that no Special Tax delinquencies apply to such Parcel.
2. For Parcels of Developed Property, compute the Maximum Special Tax for the Parcel to be prepaid. For Parcels of Undeveloped Property to be prepaid, compute the Maximum Special Tax for that Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Parcel. For Parcels of Public Property and/or Property Owner's Association Property to be prepaid, compute the Maximum Special Tax for that Parcel.
3. Divide the Maximum Special Tax computed pursuant to paragraph 2 by the total estimated Maximum Special Taxes based on the Developed Property Special Tax which could be charged, less any Parcels which have been prepaid.
4. Multiply the quotient computed pursuant to paragraph 3 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "*Bond Redemption Amount*").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium*").
6. Compute the amount needed to pay interest on the Bond Redemption Amount from

the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.

7. Determine the Special Taxes levied on the Parcel in the current Fiscal Year which have not yet been paid.
8. Compute the amount the Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
9. Add the amounts computed pursuant to paragraphs 6 and 7 and subtract the amount computed pursuant to paragraph 8 (the "*Defeasance Amount*").
10. Verify the administrative fees and expenses, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming the Outstanding Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "*Administrative Fees and Expenses*").
11. The reserve fund credit (the "*Reserve Fund Credit*") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
12. The Maximum Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 9 and 10, less the amount computed pursuant to paragraph 11 (the "*Prepayment Amount*").
13. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 9, and 11 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 10 shall be retained by the CFD.

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

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 7 (above), the Administrator shall remove the current Fiscal Year's Special Tax levy for such Parcel from the County tax rolls. With respect to any Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

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

Tenders of Bonds in prepayment of Maximum Special Taxes may be accepted upon the terms and conditions established by the Board pursuant to the Act. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

2. Prepayment in Part

The Maximum Special Tax on a Parcel of Developed Property or Undeveloped Property for which a building permit has been issued may be partially prepaid in increments of \$2,000. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = P_E \times F$$

These terms have the following meaning:

PP = the partial prepayment

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

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

The owner of a Parcel who desires to partially prepay the Maximum Special Tax shall notify the Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the amount of partial prepayment expressed in increments of \$2,000, and (iii) the company or agency that will be acting as the escrow agent, if applicable and within 5 days of receipt of such notice, the Administrator shall notify such property owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a partial prepayment. Within 15 business days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the partial prepayment amount of such Parcel. Partial prepayment must be made not less than 60 days prior to any redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

With respect to any Parcel that is partially prepaid, the Administrator shall (i) distribute the funds remitted to it according to Paragraph 13 of Section H.1, and (ii) indicate in the records of the CFD that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage $(1.00 - F)$ of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Parcel pursuant to Section D.

J. TERM OF THE SPECIAL TAX

For each year that any Bonds are outstanding the Special Tax shall be levied on all Parcels subject to the Special Tax. If any delinquent Special Taxes remain uncollected prior to or after all Bonds are retired, the Special Tax may be levied to the extent necessary to reimburse the CFD for uncollected Special Taxes associated with the levy of such Special Taxes, but not later than the Fiscal Year.

2005-0437065

Original

SHEET 1 OF 1 SHEET

6/2/05

**BOUNDARY MAP
COMMUNITY FACILITIES DISTRICT NO. 2004-3
(TERRA LAGO)**

CITY OF INDIO, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

RECORDED THIS 1 DAY OF June, 2005 AT THE HOUR OF
8:00 CLOCK A.M. IN BOOK 62 PAGES 88 OF MAPS OF ASSESSMENT
AND COMMUNITY FACILITIES DISTRICTS, IN THE OFFICE OF THE COUNTY
RECORDER, IN THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA.

FEE: \$7.00 NO.: 2005-0437065

LARRY W. WARD, RIVERSIDE COUNTY ASSESSOR-CLERK-RECORDER

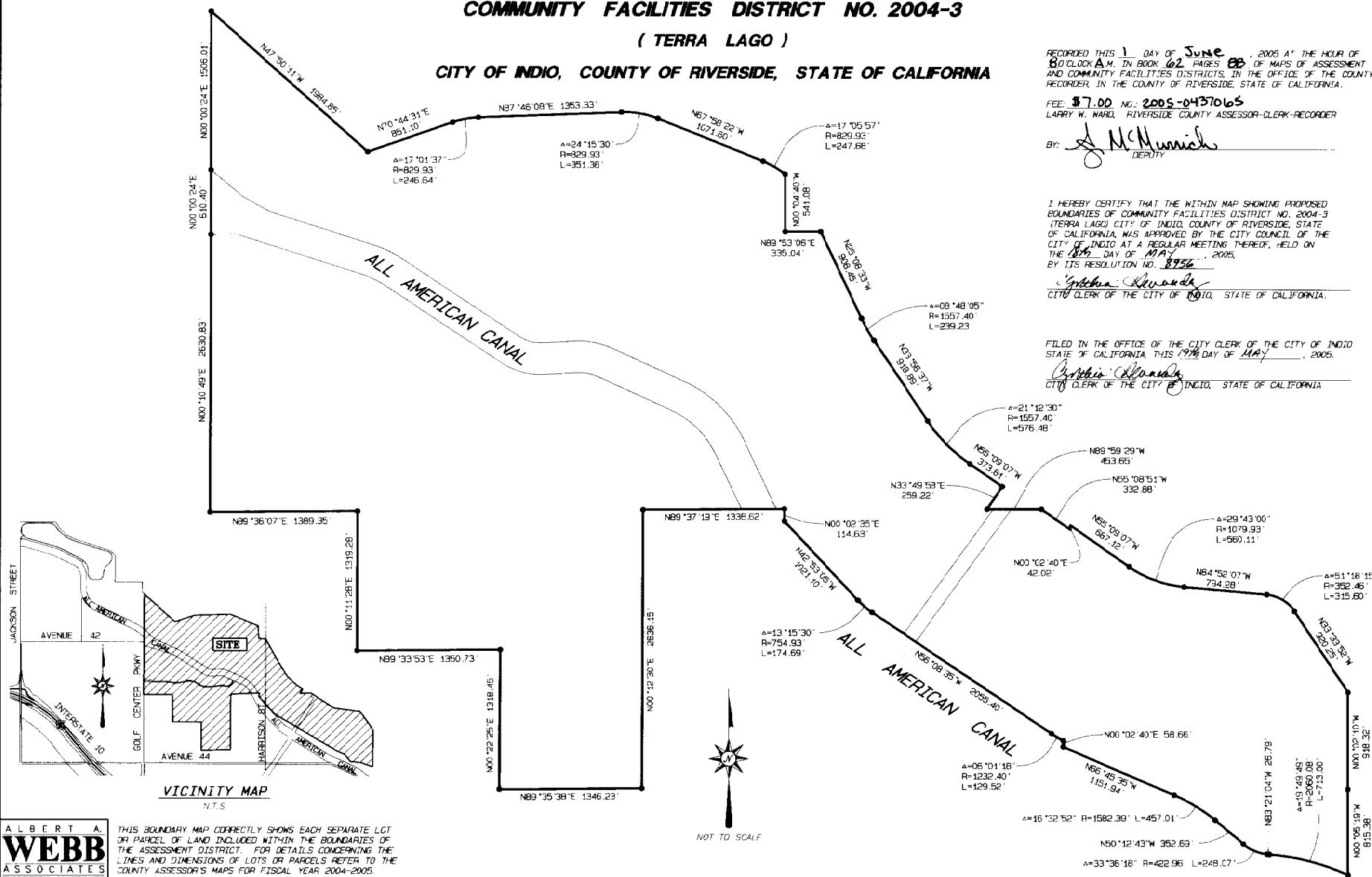
By: A. McMurich
DEPUTY

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED
BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2004-3
(TERRA LAGO) CITY OF INDIO, COUNTY OF RIVERSIDE, STATE
OF CALIFORNIA, WAS APPROVED BY THE CITY COUNCIL OF THE
CITY OF INDIO AT A REGULAR MEETING THEREOF, HELD ON
THE 18th DAY OF MAY, 2005,
BY ITS RESOLUTION NO. 8756.

Yvonne K. Edwards
CITY CLERK OF THE CITY OF INDIO, STATE OF CALIFORNIA.

FILED IN THE OFFICE OF THE CITY CLERK OF THE CITY OF INDIO
STATE OF CALIFORNIA, THIS 19th DAY OF MAY, 2005.

Arthur Edwards
CITY CLERK OF THE CITY OF INDIO, STATE OF CALIFORNIA

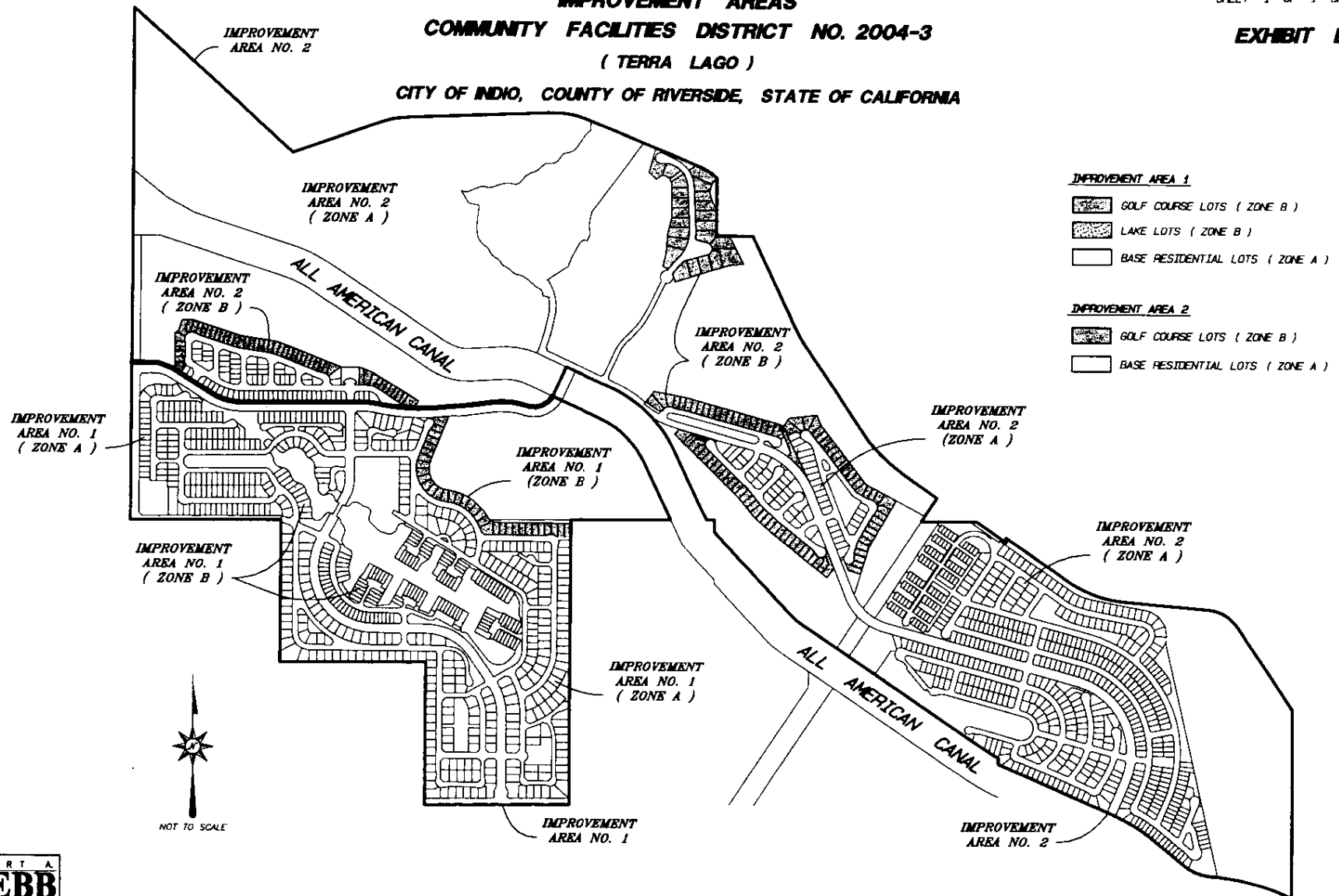


IMPROVEMENT AREAS
COMMUNITY FACILITIES DISTRICT NO. 2004-3
(TERRA LAGO)

SHEET 1 OF 1 SHEET

EXHIBIT B

CITY OF INDIO, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



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APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon issuance and delivery of the Bonds, Richards Watson & Gershon, A Professional Corporation, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Delivery Date]

City of Indio Community Facilities District No. 2004-3 (Terra Lago)
Indio, California

Opinion of Bond Counsel

with reference to

\$ _____
City of Indio
Community Facilities District No. 2004-3 (Terra Lago)
Special Tax Refunding Bonds
Series 2015
(Improvement Area No. 1)

Ladies and Gentlemen:

We have examined (i) a record of proceedings relating to the issuance by City of Indio Community Facilities District No. 2004-3 (Terra Lago) (the “District”) of the above-captioned bonds (the “Bonds”); (ii) the Bond Indenture, dated as of August 1, 2015 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., as trustee (the “Trustee”); (iii) supplemental documents furnished to us, certificates, and documents from public officials and others; and (iv) such other matters of law as we have deemed necessary to enable us to render the opinions expressed herein. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation. Capitalized terms used but not defined herein have the meanings ascribed to them in the Indenture.

The Bonds are issued under and pursuant to the Indenture and the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the California Government Code) (the “Act”) to refinance certain public facilities as authorized by the Act.

Based on the examination described herein, we are of the opinion that under existing law:

1. The Indenture has been duly and lawfully authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee, is in full force and effect in accordance with its terms and is valid and binding upon the District, enforceable in accordance with its terms, and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of the Net Taxes and certain funds established by the Indenture, including the investments, if any, thereof, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

2. The District is duly authorized and entitled to issue the Bonds. The Bonds have been duly and validly authorized and issued by the District in accordance with the Constitution and statutes of the State of California, including the Act, and in accordance with the Indenture. The Bonds constitute the

valid and binding special obligations of the District, payable solely from Net Taxes and certain funds established by and as provided in the Indenture.

3. Interest on the Bonds is exempt from State of California personal income taxes.

4. Assuming compliance with the covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes. The Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”) and, therefore, interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. However, we note a portion of the interest on Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted current earnings.

The Code sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The District has covenanted to satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents 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, upon the advice or with the approving opinion of nationally recognized bond counsel. We express no opinion as to any Bond, or the interest thereon, if any change occurs or action is taken or omitted upon the advice or approval of any bond counsel other than ourselves.

Except as stated in the foregoing paragraphs numbered 3 and 4 and the paragraph immediately following paragraph 4, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Bonds.

The opinions expressed in the paragraphs numbered 1 and 2 hereof are qualified to the extent that the enforceability of the Indenture and the Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, fraudulent conveyance or transfer, moratorium, reorganization or other similar laws affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all agreements and covenants contained in the Indenture. No opinion is expressed herein with respect thereto the accuracy, completeness or fairness of the Official Statement or any other offering material relating to the Bonds.

Respectfully submitted,

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

“Account” means any account created pursuant to the Indenture.

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

“Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by the 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.

“Administrative Expenses Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Administrative Expenses Requirement” means an amount equal to \$40,000 per Bond Year.

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

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

(1) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”); (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)

Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)

Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)

Consolidated debt obligations
- Federal National Mortgage Association (FNMA)

Senior debt obligations

Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Financing Corporation (FICO)

Debt obligations
- Resolution Funding Corporation (REFCORP)

Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC) or fully collateralized by Permitted Investments described in clauses (1), (2), or (3), in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated, at the time of investment, "A-1+" by Standard & Poor's and "Prime-1" by Moody's and issued by an entity meeting the criteria in either clause (A) or (B):

(A) the entity (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of \$500,000,000, and (iii) has debt other than commercial paper, if any, that is rated "A" or higher by Standard & Poor's or Moody's; or

(B) the entity (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond, and (ii) has commercial paper rated “A-1” or higher by Standard & Poor’s or “A1” by Moody’s.

(7) Money market funds rated “AAm” or “AAm-G” by Standard & Poor’s, or better (including funds for which the Trustee or its affiliates provide investment advisory or other management services).

(8) “State Obligations,” which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by Standard & Poor’s, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated “A-1+” by Standard & Poor’s and “Prime-1” (“MIG-1”) by Moody’s.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated “AA” or better by Standard & Poor’s and “Aa” or better by Moody’s.

(9) Pre-refunded municipal obligations rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by Standard & Poor’s and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by Standard & Poor’s and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by Standard & Poor’s and Moody’s, provided that:

(a) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach);

(b) The Trustee or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) All other requirements of S&P in respect of repurchase agreements shall be met; and

(e) The repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or Standard & Poor’s is withdrawn or suspended or falls below “A-” by Standard & Poor’s or “A3” by Moody’s, as appropriate, the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by Standard & Poor’s and Moody’s, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA-” by Standard & Poor’s or “Aa3” by Moody’s; provided that, by the terms of the investment agreement:

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

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(C) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

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

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

(1) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

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

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

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

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

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep moneys available for the purposes of the Indenture.

(13) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation, including certificates of deposit placed through the CDARS program.

"Authorized Representative of the City" means the City Manager of the City, the Finance Director of the City, or any other person or persons designated by the City Manager or the Finance Director by a written certificate signed by the City Manager or the Finance Director and containing the specimen signature of each such person.

"Authorized Representative of the District" means the City Manager of the City, the Finance Director of the City, or any other person or persons designated by the City Manager or the Finance Director by a written certificate signed by the City Manager or the Finance Director and containing the specimen signature of each such person.

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

"Bond Register" means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

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

"Bonds" means the Series 2015 Bonds.

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

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

“Certificate of an Authorized Representative” means a written certificate executed by an Authorized Representative of the City or District, as applicable.

“Certificate of the Special Tax Administrator” means a certificate of an Authorized Representative of the District, or any successor entity appointed by the City, to administer the calculation and collection of the Special Taxes.

“City” means the City of Indio, California.

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

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement dated as of August ___, 2015, by and between the District and Willdan Financial Services, as dissemination agent, together with any amendments thereto.

“Costs of Issuance” means the costs and expenses incurred in connection with issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and any Parity Bonds and the preliminary and final official statements for the Bonds and any Parity Bonds, fees of financial consultants, and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

“Costs of Issuance Fund” means the fund by that name created and established 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 Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Bonds, or any other securities depository acting as Depository under the Indenture.

“District” means City of Indio Community Facilities District No. 2004-3 (Terra Lago) established pursuant to the Act and the Resolution of Formation.

“Escrow Agreement” means the Escrow Agreement, dated as of even date herewith, by and between the District and MUFG Union Bank, N.A., a national banking association, as escrow agent, relating to the refunding of the remaining outstanding portion of the District’s Special Tax Bonds, Series 2005 (Improvement Area No. 1), scheduled to mature on September 1, 2015 and thereafter through September 1, 2035.

“Escrow Fund” means the fund by that name established under the Escrow Agreement.

“Event of Default” shall mean an “event of default” under the Indenture as described below under the heading “EVENTS OF DEFAULT; REMEDIES.”

“Federal Securities” means any of the following: (a) non-callable direct obligations of the United States of America (“Treasures”), (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasures held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasures are not available to any person claiming through the custodian or to whom the custodian may be obligated, and (c) pre refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s and Moody’s, respectively, (d) securities eligible for “AAA” defeasance under then existing criteria of Standard & Poor’s, or (e) any combination of the foregoing.

“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 Improvement Area No. 1 of the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

“Indenture” means the Bond Indenture dated as of August 1, 2015 pursuant to which the Bonds have been issued, together with any Supplemental Indenture approved and entered into pursuant to the Indenture.

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

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

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, at www.emma.msrb.org; provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, Information Services shall mean such other organizations providing information with respect to called bonds as the District may designate to the Trustee in writing.

“Interest Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Interest Payment Date” means each March 1 and September 1, 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.

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

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

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

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses, not to exceed the Administrative Expenses Requirement.

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

“Ordinance” means Ordinance No. 1442 adopted by the legislative body of the District on August 3, 2005, providing for the levying of the Special Tax.

“Outstanding Bonds” or “Outstanding Bonds and Parity Bonds” means all Bonds and/or Parity Bonds, as applicable, 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 shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and
- (3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

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

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

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

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

“Principal Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Principal Office of the Trustee” means the corporate trust office of the Trustee located in Los Angeles, California, or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

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

“Rate and Method” means the rate and method of apportionment of Special Taxes attached to the Resolution of Formation, as it may be amended or modified from time to time.

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

“Rebate Fund” means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

“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 created and established in the Special Tax Fund pursuant to the Indenture.

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

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

“Reserve Account” means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

“Reserve Financial Guaranty” means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is A+ or better from S&P or A1 or better from Moody’s; (b) such letter of credit, insurance policy, or surety bond has a term of at least twelve (12) months; (c) such letter of credit, insurance policy, or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy, or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the amount Interest Account and the Principal Account for the purpose of making payments required pursuant to the Indenture.

“Reserve Requirement” means that amount as of any date of calculation equal to the least 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, if any.

“Resolution of Formation” means Resolution No. 9025 adopted by the City Council of the City on July 20, 2005, pursuant to which the City formed the District.

“Series 2015 Bonds” means the District’s Special Tax Refunding Bonds, Series 2015 (Improvement Area No. 1), issued on their Delivery Date in the aggregate principal amount of \$16,030,000.*

“Sinking Fund Payment” means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedules set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

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

“Special Taxes” means the taxes authorized to be levied by the District on property within Improvement Area No. 1 of the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the July 20, 2005 election in Improvement Area No. 1 of the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien, and penalties and interest thereon.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a division of McGraw-Hill, its successors and assigns.

“Subaccount” means any subaccount created pursuant to the Indenture.

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

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

“Tax Certificate” means the Certificate Regarding Compliance with Certain Tax Matters (or similar document) pertaining to the use and investment of proceeds of a series of Bonds, executed and delivered by a duly authorized officer of the District and of the City on the related Delivery Date, including any and all exhibits and attachments thereto.

“Tax-exempt” means, with respect to interest on any obligations of a state or local government, including the interest on the Bonds, that such interest is excluded from gross income for federal income tax purposes whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax, under the Code.

“Term Bonds” means, collectively, the Series 2015 Bonds maturing on September 1, 20__ and September 1, 20__.

* Preliminary; subject to change.

“Trustee” means MUFG Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, at its corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

“2005 Bonds” means the District’s \$26,330,000 aggregate initial principal amount Special Tax Bonds, Series 2005 (Improvement Area No. 1), currently outstanding in the aggregate principal amount of \$19,750,000.

“Underwriter” means Stifel, Nicolaus & Company, Incorporated, with respect to the Series 2015 Bonds.

CREATION OF FUNDS AND APPLICATION OF PROCEEDS

Creation of Funds; Application of Proceeds.

(a) The Trustee has established the following funds and accounts:

(1) The City of Indio Community Facilities District No. 2004-3 (Terra Lago) IA No. 1 Special Tax Fund (the “Special Tax Fund”) (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expenses Account).

(2) The City of Indio Community Facilities District No. 2004-3 (Terra Lago) IA No. 1 Rebate Fund (the “Rebate Fund”).

(3) The City of Indio Community Facilities District No. 2004-3 (Terra Lago) IA No. 1 Costs of Issuance Fund (the “Costs of Issuance Fund”).

(4) The City of Indio Community Facilities District No. 2004-3 (Terra Lago) IA No. 1 Surplus Fund (the “Surplus Fund”).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee and the Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and shall disburse investment earnings thereon in accordance with the provisions of the Indenture.

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

(b) The proceeds of the sale of the Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as set forth in the Official Statement under the caption “SOURCES AND USES OF FUNDS.”

Deposits to and Disbursements from Special Tax Fund.

(a) To the extent the District receives any Prepayments, the District shall deposit such Prepayments with the Trustee, together with a Certificate of an Authorized Representative designating such Special Taxes as Prepayments and specifying the respective amounts to be deposited in the various

funds and accounts under the Indenture, and the Trustee shall make such deposits as specified in such certificate promptly after its receipt thereof. Except for any Prepayments to be deposited pursuant to the foregoing, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

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

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

Administrative Expenses Account of the Special Tax Fund. From time to time, the District may provide the Trustee with a Certificate of an Authorized Representative of the District in substantially the form provided in the Indenture, requesting the payment of Administrative Expenses as set forth therein. Upon its receipt of any such certificate, the Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expenses Account of the Special Tax Fund amounts necessary to make timely payment of any such Administrative Expenses as set forth in the Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expenses Requirement until such time as there has been deposited (a) to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year, (b) to the Redemption Account an amount, together with any amounts already on deposit therein, that is sufficient to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in the Indenture and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds, and (c) to the Reserve Account an amount, together with any amounts already on deposit therein, that is sufficient to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Requirement may be transferred to the Administrative Expenses Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expenses Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative. The Trustee shall have no obligation to transfer any amount from the Special Tax Fund for deposit in the Administrative Expenses Account of the Special Tax Fund except upon its receipt of a Certificate of an Authorized Representative of the District pursuant to this section.

Interest Account and Principal Account of the Special Tax Fund. The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, and after making the transfer required by the Indenture, at least five (5) Business Days prior to each March 1 and September 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account five (5) Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five (5) Business Days prior to September 1 of each year, commencing September 1, 2016, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(a) With respect to each September 1 on which a Sinking Fund Payment is due, and after the deposits have been made to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund as required by the preceding two paragraphs, the Trustee shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five (5) Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds and any Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Indenture. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in the Indenture, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedules in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund and to the Redemption Account for Sinking Fund Payments then due pursuant to the preceding paragraph, and in accordance with the District's election to call Bonds for optional redemption as set forth in the Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expenses Account therein) may be applied to optionally redeem Bonds and Parity Bonds

only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to the Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments.

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

Reserve Account of the Special Tax Fund. There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The Reserve Requirement may be satisfied by crediting to the Reserve Account moneys or one or more Reserve Financial Guaranties or any combination thereof, which in the aggregate make funds available in the Reserve Account in an amount equal to the Reserve Requirement. Upon the deposit with the Trustee of any such Reserve Financial Guaranty, the Trustee shall release moneys from the Reserve Account to the Interest Account of the Special Tax Fund, in an amount equal to the face amount of such Reserve Financial Guaranty. If funded, the amounts in the Reserve Account shall be applied as follows:

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

(b) On or after March 2 and September 2 of each year, after making the required transfers to the Administrative Expenses Account, the Interest Account, the Principal Account and the Redemption Account, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee

determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, then the District shall include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with an optional or extraordinary redemption of Bonds pursuant to the Indenture, or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with the Indenture, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement (taking into account Outstanding Bonds and Parity Bonds after such redemption or partial defeasance). The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds in accordance with the Indenture or, if applicable, with any Supplemental Indenture for an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue.

(e) Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1, and such moneys shall be transferred and deposited into the Interest Account of the Special Tax Fund; provided, however, to the extent that, as of a date ninety (90) days prior to the next occurring Interest Payment Date, the amount on deposit in the Reserve Account is equal to or greater than the aggregate remaining principal payments to be paid on the Bonds and any Parity Bonds, any and all amounts in the Reserve Account may be applied to effect a redemption of all Outstanding Bonds pursuant to the Indenture and any Outstanding Parity Bonds in accordance with any Supplemental Indenture. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date.

Rebate Fund. To the extent and at such time necessary to accommodate rebate amounts pursuant to the Tax Certificate, Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. As necessary, the Trustee shall establish a separate Account within the Rebate Fund with respect to each issue of Bonds or Parity Bonds. All amounts on deposit in the Rebate Fund with respect to the Bonds or an issue of Parity Bonds shall be governed by the provisions of the Indenture concerning the Rebate Fund and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied. The District shall calculate and make, or cause to be calculated and made, the rebate amount in accordance with the Tax Certificate.

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 Trustee shall transfer all remaining

amounts in the Special Tax Fund 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 Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expenses Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expenses Account of the Special Tax Fund are insufficient to pay Administrative Expenses; or (iv) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or any 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 Trustee in a Certificate of an Authorized Representative, and the Trustee will segregate such amount into a separate subaccount of the Surplus Fund. The moneys on deposit in such subaccount of the Surplus Fund shall 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.

Costs of Issuance Fund. The moneys in the Costs of Issuance Fund shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District. Any balance therein shall be transferred by the Trustee to the Special Tax Fund 180 days after the Delivery Date of the Bonds or Parity Bonds, as applicable, and the Trustee shall thereafter close the Costs of Issuance Fund.

Investments. Moneys held in any of the Funds, Accounts and Subaccounts under the Indenture shall be invested at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund, the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account and Subaccount therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds, Accounts, and Subaccounts, and (ii) investment earnings on all amounts deposited in the Reserve Account shall be applied as set forth in the Indenture. Moneys in the Funds, Accounts and Subaccounts held under the Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Costs of Issuance Fund.

(b) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government or in Authorized Investments of the type described in clause (7) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall hold all monies uninvested.

COVENANTS AND WARRANTY

Warranty. The District shall 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 has made the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust for the Owners and will instruct the Treasurer to deposit all Special Taxes with the Trustee immediately upon their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District 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 the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes and other amounts pledged under the Indenture are available therefor, and that the payments into the Funds and Accounts created under the Indenture will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the

Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

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

Levy of Special Tax. The legislative body of the District represents it has levied the Special Tax for Fiscal Year 2015-16 pursuant to the Rate and Method, and so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, but subject to the Rate and Method, the legislative body of the District covenants it will continue to levy the Special Tax in an amount equal to the Special Tax Requirement for Improvement Area No. 1 (as defined in the Rate and Method), which includes, but is not limited to, amounts sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. The District further covenants 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 any Parity Bonds are Outstanding.

Commence Foreclosure Actions. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence foreclosure actions against any parcel with either (A) at least four (4) consecutive installments of delinquent Special Taxes or (B) delinquent Special Taxes in excess of \$7,500 on any one parcel, in each instance by the December 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) will commence foreclosure actions against all parcels with delinquent Special Taxes by the December 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure actions until the delinquent Special Taxes are paid; provided, however, that the District may elect to defer foreclosure proceedings on any parcel so long as the amount on deposit in the Reserve Account is at least equal to the Reserve Requirement and such delinquencies will not cause moneys in the Reserve Account to be withdrawn on the next succeeding Interest Payment Date. In no event shall such foreclosure actions exceed the time periods specified in Section 53356.1 of the Act. The District has covenanted that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

Notwithstanding the foregoing, the District may elect (but is not obligated) to advance the amount of any particular delinquency (excluding penalties and interest) and deposit such amount to the Special Tax Fund. Upon a deposit of such money in the Special Tax Fund, the District will not need to initiate a foreclosure action as provided above; provided, however, the District may reimburse itself for such advance when the Special Tax on such property is paid in the amount of such advance plus interest on such amount at a rate equal to the yield on the Outstanding Bonds. Interest and penalties paid in excess of the amount advanced by the District shall be deposited in the Special Tax Fund.

Notwithstanding the foregoing, if at any time, the County's Teeter Plan (adopted pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code) is in effect and is made applicable to the District and the Special Taxes being levied in connection with the Bonds, the District may, in its discretion, elect not to commence any judicial foreclosure proceeding pursuant to this covenant or defer the commencement of such proceedings until such time as the District deems appropriate.

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

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

(1) The District will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of interest on the Bonds or any Parity Bonds under Section 103(a) of the Code or cause interest on the Bonds or any Parity Bonds to be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations under Section 55 of the Code; and

(2) In furtherance of the foregoing tax covenant, the District will comply with the provisions of the Tax Certificate, which is incorporated into the Indenture as if fully set forth therein. These covenants shall survive payment in full or defeasance of the Bonds and any Parity Bonds.

Reduction of Maximum Special Taxes. The District has covenanted, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District.

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

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

AMENDMENTS TO INDENTURE

Supplemental Indentures or Orders Not Requiring Bondowner Consent. The District may from time to time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

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

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

(c) to provide for the issuance of any Parity Bonds for the sole purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

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

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

(f) to the extent necessary to obtain an Insurance Policy or to obtain a rating on the Bonds, or in connection with satisfying all or a portion of the Reserve Requirement by crediting a Financial Guaranty to the Reserve Account; provided that such amendments which shall not materially adversely affect the interests of the Owners of the then Outstanding Bonds; or

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

Supplemental Indentures or Orders Requiring Bondowner Consent. Exclusive of the Supplemental Indentures described in the preceding paragraph, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest

thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

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

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

TRUSTEE

Trustee. MUFG Union Bank, N.A., a national banking association, has been appointed the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Indenture. The District may, at any time, appoint a successor Trustee satisfying certain requirements under the Indenture for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture.

Removal of Trustee. The District may at any time in its sole discretion remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank national banking association, or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of

appointment by the successor Trustee. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

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

If no successor Trustee shall have been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of itself and all other Owners of the Bonds) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

EVENTS OF DEFAULT; REMEDIES

Events of Default. Any one or more of the following events shall constitute an "event of default" (each, an "Event of Default"):

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

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

(c) except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Trustee or the Owners of twenty-five percent (25%), in aggregate principal amount of the Outstanding Bonds and Parity Bonds; provided, that if such default (other than a default arising from nonpayment of the Trustee's fees and expenses) be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

The Trustee agrees to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under (a) or (b) above and within sixty (60) days of the Trustee's knowledge of an Event of Default under (c) above.

Remedies of Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or

any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

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

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

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law; provided, under no circumstance will the Bonds, or the obligation of the District to pay installments of principal thereof and interest thereon, be accelerated.

Application of Revenues and Other Funds After Default. Following the declaration by the Trustee of an Event of Default, all amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

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

(a) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing, and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

Third, to deposit such amounts in the Reserve Account to restore the balance therein to the Reserve Requirement.

After payment or deposit of such amounts, the Trustee may apply any remaining amounts received toward the payment of any rebate amounts pursuant to the Indenture or to the payment of the fees, costs and expenses of the District in connection with such Event of Default.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of 25% in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

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

Non-Waiver. Nothing in the Indenture, or in the Bonds or the Parity Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other moneys pledged in the Indenture for such payment.

Limitations on Rights and Remedies of Owners. No Owner of any Bond or Parity Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Indenture before granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

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

DEFEASANCE AND PARITY REFUNDING BONDS

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

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the preceding 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 Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, together with

the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the federal tax covenants of the District or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten (10) days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee in the sole discretion of the Trustee. In connection with a defeasance under (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with this Section, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture.

Conditions for the Issuance of Parity Refunding Bonds. For the sole purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding, 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 (other than in the Administrative Expenses Account in the Indenture) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture. Parity Bonds may be issued subject to the following specific conditions, which are made conditions precedent to the issuance of any such Parity Bonds:

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

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

(1) that such Parity Bonds are to be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then Outstanding, as applicable, 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 shall fall on a September 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any

combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

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

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

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

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount in the Indenture 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 shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall be 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 (a) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a Tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(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 Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued.

Unclaimed Moneys. Any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two (2) years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee at the expense of the District, shall cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (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 shall constitute a contract between the District and the Bondowners, and the provisions thereof shall be construed in accordance with the laws of the State of California.

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

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

Future Contracts. Nothing contained in the Indenture shall 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 and other amounts pledged under the Indenture.

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 or any Parity Bonds the rights and benefits provided in the Indenture.

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

APPENDIX E

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix E concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the District takes no responsibility for the completeness or accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest 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.

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

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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).

Principal, premium (if any), and interest 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 Trustee, 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 Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the Bonds 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 Trustee, 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.

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 Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Bonds 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, representing the Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

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

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APPENDIX F

FORM OF DISTRICT CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of August __, 2015 is executed and delivered by the City of Indio Community Facilities District No. 2004-3 (Terra Lago) (the “District”) and Willdan Financial Services, as dissemination agent (the “Dissemination Agent”) in connection with the issuance by the District of its \$_____ aggregate principal amount of Special Tax Refunding Bonds, Series 2015 (Improvement Area No. 1) (the “Bonds”). The Bonds are being issued pursuant to a Bond Indenture, dated as of August 1, 2015 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., as trustee (the “Trustee”). The District and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the holders 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.

“Dissemination Agent” shall mean Willdan Financial Services, or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Trustee a written acceptance of such designation.

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

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Obligated Person” shall mean any person, including an issuer of municipal securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

“Official Statement” shall mean the final Official Statement, dated August __, 2015, relating to the Bonds.

“Participating Underwriter” shall mean Stifel, Nicolaus and Company, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“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.

Section 3. Provisions of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the District's Fiscal Year (which Fiscal Year currently commences on July 1 and ends on June 30 of each year), commencing March 31, 2017 with the report for the 2015-16 fiscal year, provide to the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB, 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 City for the Fiscal Year may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than fifteen (15) business days prior to the applicable date specified in subsection (a) above for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 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 is in compliance with the first sentence of this subsection (b). 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.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A, or in such other form as prescribed by, or acceptable to, the MSRB.

(d) The Dissemination Agent (if other than the District) shall, if and to the extent, the District has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements of the City prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Such financial statements shall be accompanied by a statement substantially as follows:

THE CITY'S ANNUAL FINANCIAL STATEMENTS ARE PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15c2-12. EXCEPT FOR THE REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE RELATING TO THE BONDS, NO FUNDS OR ASSETS OF THE CITY ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS. THE CITY IS NOT OBLIGATED TO

ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES.
INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF
THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE
BONDS.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, the following information:

- 1) The principal amount of Bonds outstanding as of October 1 preceding the filing of the Annual Report.
- 2) The current balance in the Reserve Account of the Special Tax Fund held under the Indenture and the Reserve Requirement, as of the October 1 preceding the filing of the Annual Report.

(c) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, other financial information and operating data relating to the Improvement Area No. 1 of the District, contained in the Official Statement for the Bonds as follows:

- 1) For the more recent ended Fiscal Year preceding the filing of the Annual Report, an update to the development status of the parcels within Improvement Area No. 1, classified as “Developed Property” and “Undeveloped Property” within Improvement Area No. 1 of the District, in substantially the form set forth in Table 1 of the Official Statement.
- 2) The total assessed value of all taxable parcels within Improvement Area No. 1 of the District, as shown on the assessment roll of the Riverside County Assessor last equalized prior to October 1 preceding the filing of the Annual Report, and a statement of value-to-lien ratios therefor, by categories in substantially the form set forth in Table 5 of the Official Statement.
- 3) The Special Tax delinquency rate for all parcels within Improvement Area No. 1 of the District on which the Special Taxes are levied, as shown on the assessment roll of the Riverside County Assessor last equalized prior to October 1 preceding the filing of the Annual Report and other related information in substantially the form set forth in Table 7 of the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been available to the public on the MSRB’s internet web site or filed with the Securities and Exchange Commission. 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, the District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds, which

notice shall be given in a timely manner, not in excess of ten (10) business days after the occurrence of such Listed Event:

- 1) Principal and interest payment delinquencies;
- 2) Non-payment related defaults, if material;
- 3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- 4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- 5) Substitution of credit or liquidity providers, or their failure to perform;
- 6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- 7) Modifications to rights of security holders, if material;
- 8) Bond calls, if material, and tender offers;
- 9) Defeasances;
- 10) Release, substitution, or sale of property securing repayment of the securities, if material;
- 11) Rating changes;
- 12) Bankruptcy, insolvency, receivership or similar event of the Obligated Person;
- 13) The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- 14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of the events listed in Section 5(a) (1), (3), (4), (5), (6), (9), (11) or (12), inform the District of the occurrence of such event. As soon as reasonably practicable after obtaining knowledge of the occurrence of such event, the District shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such

event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

(c) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of any of the events listed in Section 5(a) (2), (7), (8), (10), (13) or (14), inform the District of the occurrence of such event and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d).

(d) Whenever the District obtains knowledge of the occurrence of any event specified in Section 5(a) (2), (7), (8), (10), (13) or (14), the District shall as soon as possible, in order to meet the ten (10) business day deadline to file notices required under the Rule and pursuant to the following sentence, determine if such event would be material under applicable Federal securities law. If the District determines that knowledge of the occurrence of such event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all 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(b).

Section 7. Dissemination Agent.

(a) The District hereby appoints and engages Willdan Financial Services as the Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The District may replace the Dissemination Agent with or without cause. If at the time there is no designated Dissemination Agent appointed by the District, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties hereunder by giving 30-days written notice to the District.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees agreed to between the Dissemination Agent and the District from time to time and for 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 hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, holders or beneficial owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an Obligated Person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. For purposes of this paragraph, "impact" has the meaning as that word is used in the letter from the staff of the Securities and Exchange Commission to the National Association of Bond Lawyers dated June 23, 1995.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(b).

No amendment to this Agreement which modifies the duties or rights of the Dissemination Agent shall be made without the prior written consent of the Dissemination Agent.

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.

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 Participating Underwriter or any holder 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 or the

Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the 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. All of the immunities, indemnities, and exceptions from liability in Article VI of the Indenture insofar as they relate to the Trustee shall apply to the Dissemination Agent in this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as 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, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the District or an opinion of nationally recognized bond counsel. 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 Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach of this Agreement.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District:	City of Indio Community Facilities District No. 2004-3 (Terra Lago) 100 Civic Center Mall Indio, California 92201 Attention: Finance Director Fax: (760) 391-4029 Email: rrockwell@indio.org with a copy to: findept@indio.org
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To the Dissemination Agent:	Willdan Financial Services 27368 Via Industria Suite 200 Temecula, California 92590 Fax: (951) 587-3510 Email: sreynolds@willdan.com
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Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first written above.

CITY OF INDIO COMMUNITY FACILITIES
DISTRICT NO. 2004-3 (TERRA LAGO)

Mayor of the City of Indio

WILLDAN FINANCIAL SERVICES
as Dissemination Agent

Authorized Representative

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING
BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Indio Community Facilities District No. 2004-3 (Terra Lago)

Name of Bond Issue: \$_____ initial principal amount
City of Indio Community Facilities District No. 2004-3 (Terra Lago)
Special Tax Refunding Bonds
Series 2015
(Improvement Area No. 1)

Date of Issuance: August __, 2015

NOTICE IS HEREBY GIVEN that the City of Indio Community Facilities District No. 2004-3 (Terra Lago) (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of August __, 2015, by and between the District and Willdan Financial Services, as dissemination agent. The District anticipates that the Annual Report will be filed by _____.

Date: _____, 20__

Willdan Financial Services
as Dissemination Agent

By: _____
Title: _____

cc: City Manager of the City of Indio,
on behalf of City of Indio Community Facilities District No. 2004-3 (Terra Lago)

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