In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2016 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS – Tax Exemption" herein.

\$12,575,000

COMMUNITY FACILITIES DISTRICT NO. 2005-1 (WHISPERING HILLS) OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT SPECIAL TAX BONDS, SERIES 2016

Dated: Date of Delivery

Due: September 1, as shown below

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District Special Tax Bonds, Series 2016 (the "2016 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Fiscal Agent Agreement, dated as of October 1, 2013 (the "Original Fiscal Agent Agreement"), by and between Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District (the "Community Facilities District") and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), as supplemented by the First Supplement to Fiscal Agent Agreement, dated as of September 1, 2016 (the "First Supplement to Fiscal Agent Agreement," and together with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement").

The 2016 Bonds are payable from proceeds of an annual Special Tax being levied on and collected from certain property within the Community Facilities District pursuant to the First Amended Rate and Method of Apportionment for Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District (the "First Amended Rate and Method") approved by the qualified electors of the Community Facilities District and by the Board of Trustees of the Capistrano Unified School District (the "School District"), acting as the legislative body of the Community Facilities District (the "Board"). The Bonds are secured by a first pledge of the Net Taxes (as defined herein) and the moneys on deposit in certain funds held under the Fiscal Agent Agreement.

The 2016 Bonds are being issued (i) to pay a portion of the cost of the acquisition and/or construction by the School District of property/improvements with respect to the Harold Ambuehl Elementary School, Marco Forster Middle School and/or San Juan Hills High School, (ii) to finance certain public improvements for the City of San Juan Capistrano, California, (iii) to pay the costs of issuing the 2016 Bonds and (iv) to fund the deposit to the Reserve Fund (as defined in the Fiscal Agent Agreement) to increase the amount therein to the Reserve Requirement (as defined in the Fiscal Agent Agreement). See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Interest on the 2016 Bonds is payable on each March 1 and September 1, commencing March 1, 2017. The 2016 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2016 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2016 Bonds as described herein under "THE 2016 BONDS – Book-Entry and DTC."

The 2016 Bonds are subject to optional redemption, mandatory redemption from prepayment of Special Taxes and mandatory redemption as described herein. See "THE 2016 BONDS – Redemption."

THE 2016 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2016 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2016 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2016 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE FIRST AMENDED RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2016 BONDS. THE 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE FIRST AMENDED RATE AND METHOD, AS MORE FULLY DESCRIBED HEREIN.

This cover page contains certain information for general reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2016 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of risk factors that should be considered in evaluating the investment quality of the 2016 Bonds.

The 2016 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe, Los Angeles, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the School District and the Community Facilities District by Burke, Williams & Sorensen, LLP, Santa Ana, California, and by James F. Anderson Law Firm, A Professional Corporation, Laguna Hills, California, Disclosure Counsel. Additionally, Nossaman LLP, Irvine, California, has reviewed certain matters for the Underwriter. It is anticipated that the 2016 Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about September 7, 2016.



MATURITY SCHEDULE

\$12,575,000

COMMUNITY FACILITIES DISTRICT NO. 2005-1 (WHISPERING HILLS) OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT SPECIAL TAX BONDS, SERIES 2016

Base CUSIP® No. † 139705

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No.†	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No.†
2017	\$60,000	2.00%	0.65%	NP8	2026	\$175,000	3.00%	2.24% ^C	NY9
2018	65,000	2.00	0.88	NQ6	2027	195,000	3.00	2.39 ^C	NZ6
2019	80,000	2.00	1.11	NR4	2028	215,000	4.00	2.42^{CC}	PA9
2020	85,000	2.00	1.33	NS2	2029	235,000	4.00	2.54^{CC}	PB7
2021	105,000	2.00	1.46	NT0	2030	260,000	4.00	2.59^{CC}	PC5
2022	115,000	2.00	1.68	NU7	2031	280,000	4.00	2.65^{CC}	PD3
2023	130,000	3.00	1.82	NV5	2032	305,000	4.00	$2.70^{\:\mathrm{CC}}$	PE1
2024	145,000	3.00	1.96	NW3	2033	330,000	3.00	3.00	PF8
2025	160,000	3.00	2.10	NX1	2034	355,000	3.00	3.05	PG6

\$795,000 3.00% Term Bonds due September 1, $2036 - \text{Yield } 3.12\% \text{ CUSIP}^{\$} \text{ No.}^{\dagger} 139705 \text{ PH4}$ \$910,000 3.00% Term Bonds due September 1, $2038 - \text{Yield } 3.16\% \text{ CUSIP}^{\$} \text{ No.}^{\dagger} 139705 \text{ PK7}$ \$7,575,000 4.00% Term Bonds due September 1, $2046 - \text{Yield } 2.92\% ^{\text{CC}} \text{ CUSIP}^{\$} \text{ No.}^{\dagger} 139705 \text{ PJ0}$

^C Yield to optional call on September 1, 2025 at 100% of par.

^{CC} Yield to optional call on September 1, 2023 at 102% of par.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP® data is provided by CUSIP Global Services (CGS) which is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. The Community Facilities District, the School District and the Underwriter take no responsibility for the accuracy of such numbers.

CAPISTRANO UNIFIED SCHOOL DISTRICT

BOARD OF TRUSTEES

Amy Hanacek, *President*Jim Reardon, *Vice President*Martha McNicholas, *Clerk of the Board*John M. Alpay, *Member*Lynn Hatton-Hodson, *Member*Gila Jones, *Member*Dr. Gary Pritchard, *Member*

SUPERINTENDENT

Kirsten M. Vital, Superintendent Clark Hampton, Deputy Superintendent, Business & Support Services

PROFESSIONAL SERVICES

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP Los Angeles, California

COMMUNITY FACILITIES DISTRICT & SCHOOL DISTRICT COUNSEL

Burke, Williams & Sorensen, LLP Santa Ana, California

DISCLOSURE COUNSEL

James F. Anderson Law Firm, A Professional Corporation Laguna Hills, California

FINANCIAL ADVISOR

Government Financial Strategies inc. Sacramento, California

SPECIAL TAX CONSULTANT & CFD ADMINISTRATOR

David Taussig & Associates, Inc. Newport Beach, California

APPRAISER

Harris Realty Appraisal Newport Beach, California

FISCAL AGENT

U.S. Bank National Association Los Angeles, California

GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the 2016 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2016 Bonds. All information for investors regarding the Community Facilities District and the 2016 Bonds is contained in this Official Statement. While the School District maintains an internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the 2016 Bonds or any other bonds or obligations of the School District

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Community Facilities District in any press release and in any oral statement made with the approval of an authorized officer of the Community Facilities District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend," and similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results and those differences may be material. 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, give rise to any implication that there has been no change in the affairs of the Community Facilities District or any other entity described or referenced herein since the date hereof. The Community Facilities District does not plan to issue any updates or revision to the forward-looking statements set forth in this Official Statement.

Authorized Information. No dealer, broker, salesperson or other person has been authorized by the Community Facilities District to give any information or to make any representations in connection with the offer or sale of the 2016 Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Community Facilities District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2016 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Involvement of Underwriter. The Underwriter has submitted 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 the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of 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 Community Facilities District or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement 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.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2016 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2016 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE 2016 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2016 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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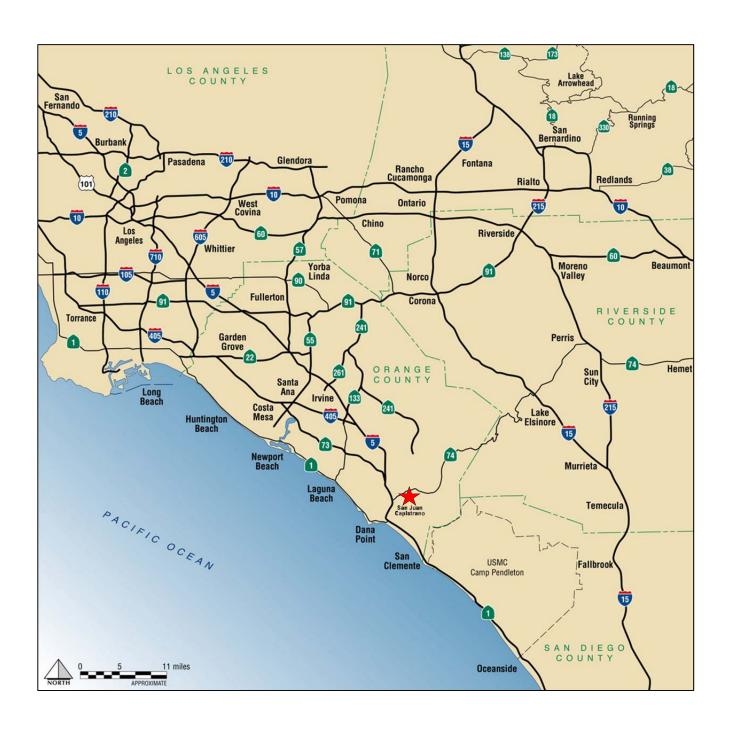
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Capistrano Unified School District

(Orange County, California)

Regional Location Map





OFFICIAL STATEMENT

\$12,575,000

COMMUNITY FACILITIES DISTRICT NO. 2005-1 (WHISPERING HILLS) OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT SPECIAL TAX BONDS, SERIES 2016

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2016 Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District Special Tax Bonds, Series 2016 (the "2016 Bonds").

The 2016 Bonds are issued pursuant to the Act (as defined below) and the Fiscal Agent Agreement, dated as of October 1, 2013 (the "Original Fiscal Agent Agreement"), by and between Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District (the "Community Facilities District") and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), as supplemented by the First Supplement to Fiscal Agent Agreement, dated as of September 1, 2016 (the "First Supplement to Fiscal Agent Agreement," and together with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"). See "THE 2016 BONDS – Authority for Issuance" herein.

Capitalized terms used herein but not defined shall have the meanings given them in the Fiscal Agent Agreement or APPENDIX C – "Summary of Certain Provisions of the Fiscal Agent Agreement."

The Community Facilities District's may issue Parity Bonds for refunding purposes and in conjunction therewith, may issue new money bonds so long as the covenants relating to the issuance of Parity Bonds, including covenants regarding minimum debt service coverage and minimum Value-to-Lien for Appraised Developed Property are satisfied. On November 6, 2013, the Community Facilities District No. 2005-1 of the Capistrano Unified School District Series 2013 Special Tax Bonds (the "2013 Bonds") were issued in the principal amount of \$8,190,000, leaving \$21,810,000 remaining of the \$30,000,000 special tax bond authorization (the "2005 Authorization"). After issuance of the 2016 Bonds, \$9,235,000 of the 2005 Authorization remains. The 2016 Bonds have been sized to provide a minimum of 110% debt service coverage of the aggregate debt service of the 2013 Bonds and 2016 Bonds. The Community Facilities District's ability to issue Parity Bonds for new money purposes is constrained by the debt service coverage covenant. See "SECURITY FOR THE 2016 BONDS – Parity Bonds."

The School District

The Capistrano Unified School District (the "School District") is a political subdivision of the State of California (the "State") and is governed by a seven-member Board of Trustees (the "Board"). Founded in 1965, the School District encompasses 195 square miles in seven cities and a portion of the unincorporated area of Orange County (the "County"). The jurisdiction of the School District includes all

or part of the cities of San Clemente, Dana Point, San Juan Capistrano, Laguna Niguel, Aliso Viejo, Mission Viejo and Rancho Santa Margarita, and the communities of Las Flores, Coto de Caza, Dove Canyon, Ladera Ranch, Sendero/Rancho Mission Viejo and Wagon Wheel.

The School District provides kindergarten through 12th grade public education to more than 49,000 students on 55 campuses. The School District's second period report (P-2, the period from July 1 to April 15) of average daily attendance ("ADA"), computed in accordance with State law for the 2015-16 academic year, is estimated at 47,226. The estimated population within the School District's boundaries was approximately 358,800 based on United States census figures for 2014. The School District reported 49,120 students enrolled at the California Basic Educational Data System ("CBEDS") for Fiscal Year 2015-16. See APPENDIX A – "General Information About the Capistrano Unified School District" herein.

The Community Facilities District

The Community Facilities District is a community facilities district first established by the Board in 2005 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, the "Act"). Pursuant to the Act, the seven members of the Board serve as the legislative body of the Community Facilities District (the "Legislative Body") by virtue of their election to the Board.

The Community Facilities District consists of approximately 279 gross acres of land located in the City of San Juan Capistrano, California (the "City"), in the southeasterly portion of Orange County. The Community Facilities District is essentially built out. As of July 30, 2016, all 140 homes anticipated to be built within the Community Facilities District have been completed, and Rancho San Juan Development LLC (the "Developer") has indicated that of the 5 homes still owned by the Developer, 2 are production homes and 3 are model homes. The Developer anticipates sale and closing of the 5 remaining homes to individual homeowners by the end of September 2016. An owner of one home prepaid its special tax obligation in December 2013, leaving 139 homes subject to the levy of Special Taxes. In addition, there are 15 custom lots within the Community Facilities District but the Community Facilities District has been advised by the Developer that such custom lots are currently not feasible to develop. The 15 custom lots are part of the final map approved for the 140 lots but are not contiguous to the 140 lots. The Developer currently believes that the costs of grading the lots and constructing the public infrastructure required to provide access and sewer, water and utility service to the lots makes their development and sale infeasible Bondowners should assume that no Special Taxes as either Developed Property or Undeveloped Property will be received with respect to such custom lots. For that reason, the custom lots are not anticipated to make debt service on the Bonds.

Pursuant to the Act, the Legislative Body adopted resolutions on April 25, 2005, expressing its intention to form the Community Facilities District and to incur bonded indebtedness of the Community Facilities District. On July 26, 2005, at a special election held pursuant to the Act, the then owner of the land in the Community Facilities District voted to authorize the Community Facilities District to incur up to \$30,000,000 principal amount of special tax bonds for the purpose of financing school facilities and public improvements for the City, and approved the levy of special taxes on certain real property in the Community Facilities District (the "Special Taxes") pursuant to the Rate and Method of Apportionment of Special Taxes for the Capistrano Unified School District Community Facilities District No. 2005-1 (Whispering Hills) (the "Original Rate and Method").

In 2007, proceedings were conducted by the Legislative Body to annex certain additional territory to the Community Facilities District.

In 2011, the Legislative Body conducted proceedings with respect to the modification of the Original Rate and Method in connection with the settlement of a lawsuit with the owner of the property in the Community Facilities District. On June 13, 2011, at a special election held pursuant to the Act, the then qualified voter of the Community Facilities District approved the First Amended Rate and Method of Apportionment for Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) (the "First Amended Rate and Method").

The 2016 Bonds are being authorized pursuant to a resolution adopted by the Legislative Body on July 20, 2016 (the "Resolution") and the Fiscal Agent Agreement.

Once duly established, a community facilities district is a legally constituted governmental entity established for the purpose of financing specific facilities and services within defined boundaries. Subject to approval by a two-thirds vote of the qualified voters within a community facilities district and compliance with the provisions of the Act, a community facilities district may issue bonds and may levy and collect special taxes to repay such bonded indebtedness, including interest thereon.

The Community Facilities District levies an annual special tax (the "Special Tax," as defined below) on Developed Property (and Undeveloped Property, if necessary) as set forth in the First Amended Rate and Method. See "SECURITY FOR THE 2016 BONDS – First Amended Rate and Method." Annual Special Taxes will be levied on Taxable Property within the Community Facilities District. The 2016 Bonds are secured by and payable from the Special Tax levied pursuant to the First Amended Rate and Method.

See "THE COMMUNITY FACILITIES DISTRICT" for a description of the Community Facilities District and the development in the Community Facilities District.

Sources of Payment for the 2016 Bonds

The 2016 Bonds are secured by and payable from a first pledge of "Net Taxes," which is defined in the Fiscal Agent Agreement as all Gross Taxes minus an amount equal to the Administrative Expense Requirement. "Gross Taxes" is defined as the amount of all Special Taxes collected within the Community Facilities District and proceeds from the sale of property collected pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes. "Administrative Expense Requirement" is defined in the Fiscal Agent Agreement as the amount of \$53,060 for Fiscal Year 2016-17 and subject to escalation by 2% each Fiscal Year thereafter, commencing in Fiscal Year 2016-17. See "SECURITY FOR THE 2016 BONDS – Special Tax Fund." "Special Taxes" are defined in the Fiscal Agent Agreement as the special taxes levied by the legislative body in accordance with the First Amended Rate and Method, the Resolution of Formation, an election held within the Community Facilities District pursuant to the Act, and the Ordinance (as each such term is defined herein).

Pursuant to the Act, the First Amended Rate and Method, the Resolution of Formation (as defined herein) and the Fiscal Agent Agreement, so long as the 2016 Bonds are outstanding, the Community Facilities District will annually ascertain the parcels on which the Special Taxes are to be levied in the following Fiscal Year, taking into account any subdivisions of parcels during the applicable Fiscal Year. The Community Facilities District shall effect the levy of the Special Taxes, in accordance with the First Amended Rate and Method and the Act, each Fiscal Year so that the computation of such levy is complete and transmitted to the Auditor of the County before the final date on which the Auditor of the County will accept the transmission of the Special Taxes for the parcels within the Community Facilities District for inclusion on the next real property tax roll. See "SECURITY FOR THE 2016 BONDS – Special Taxes" herein.

The First Amended Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See "SECURITY FOR THE 2016 BONDS – First Amended Rate and Method" and "BONDOWNERS' RISKS – Exempt Properties."

The 2016 Bonds and Parity Bonds (as defined herein) are also secured by a first pledge of all moneys deposited in the Reserve Fund. (A separate reserve account will be established in the Reserve Fund in order to separately track rebate earnings with respect to the 2016 Bonds, but all of the moneys on deposit in the Reserve Fund secure payment of the 2016 Bonds and Parity Bonds.) See "SECURITY FOR THE 2016 BONDS."

The Fiscal Agent Agreement defines Reserve Requirement, with respect to the 2016 Bonds and any Parity Bonds, as an amount, as of any date of calculation, equal to the least of (i) 10% of the original principal amount of the 2016 Bonds and any Parity Bonds, (ii) maximum annual debt service on the 2016 Bonds and any Parity Bonds, or (iii) 125% of average annual debt service on the 2016 Bonds and any Parity Bonds. The ability of the Legislative Body to increase the annual Special Taxes levied to replenish the Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District and the terms of the First Amended Rate and Method and the provisions of Section 53321(d) of the Government Code as in effect at the time of formation of the Community Facilities District, which limits the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued from being increased by more than 10% as a consequence of delinquency or default by the owner of any other Assessor's parcel within the Community Facilities District. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on the 2016 Bonds, and at the direction of the Community Facilities District, for payment of rebate obligations related to the 2016 Bonds. See "SECURITY FOR THE 2016 BONDS –Special Tax Levy" and "– Reserve Fund."

The Community Facilities District has also covenanted in the Fiscal Agent Agreement to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales."

THE 2016 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2016 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2016 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2016 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE FIRST AMENDED RATE AND METHOD. NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2016 BONDS. THE 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES LEVIED PURSUANT TO THE FIRST AMENDED RATE AND METHOD, AS MORE FULLY DESCRIBED HEREIN.

Appraisal Report

An appraisal report of the 139 single-family detached lots within the Community Facilities District, dated June 10, 2016 (the "Appraisal Report"), was prepared by Harris Realty Appraisal, Newport Beach, California (the "Appraiser"), in connection with issuance of the Bonds. The purpose of the Appraisal Report was to estimate the value of the fee simple interest of the property in the Community Facilities District, subject to the Special Tax lien as of a June 1, 2016 date of value. Subject to the assumptions contained in the Appraisal Report, the Appraiser estimated that the property within the Community Facilities District, subject to the lien of the Special Taxes and overlapping liens, had an estimated value as follows:

	No. of	
Ownership	Lots/Units1	Appraised Value
Individually Owned Homes Minimum Market Value	131	\$153,105,000
Rancho San Juan Development LLC Ownership	8	8,827,000
Total	139	\$154,161,000

See "THE COMMUNITY FACILITIES DISTRICT – Appraised Property Value" and "APPENDIX C – Appraisal Report" for further information on the Appraisal Report.

Tax Exemption

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2016 Bonds is excluded from gross income for federal income tax purposes, although it may be includable in the calculation of certain taxes. Also in the opinion of Bond Counsel, interest on the 2016 Bonds will be exempt from State personal income taxes. See "LEGAL MATTERS – Tax Exemption" herein.

Risk Factors Associated with Purchasing the 2016 Bonds

Investment in the 2016 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled "BONDOWNERS' RISKS" for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2016 Bonds.

Forward Looking Statements

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

¹ As noted above, there are 15 custom lots within the Community Facilities District. The Appraisal Report also indicates the assessed value of the 15 custom lots. The Community Facilities District has been advised by the Developer that such custom lots are currently not feasible to develop. Bondowners should assume that no Special Taxes as either Developed Property or Undeveloped Property will be received with respect to such custom lots. For that reason, the custom lots are not anticipated to make debt service on the Bonds.

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

Professionals Involved in the Offering

U.S. Bank National Association, Los Angeles, California, will serve as the fiscal agent for the 2016 Bonds and will perform the functions required of it under the Fiscal Agent Agreement for the payment of the principal of and interest and any premium on the 2016 Bonds and all activities related to the redemption of the 2016 Bonds. Orrick, Herrington & Sutcliffe, Los Angeles, California, is serving as Bond Counsel to the Community Facilities District. Burke, Williams & Sorensen, LLP, Santa Ana, California, is serving as special counsel to the School District. James F. Anderson Law Firm, A Professional Corporation, Laguna Hills, California, is acting as Disclosure Counsel. Stifel, Nicolaus & Company, Incorporated, Los Angeles, California, is acting as Underwriter in connection with the issuance and delivery of the 2016 Bonds. Nossaman LLP, Irvine, California, is acting as Underwriter's Counsel.

The Appraisal Report was prepared by Harris Realty Appraisal, Newport Beach, California. Government Financial Strategies inc., Sacramento, California, acted as Financial Advisor to the School District and the Community Facilities District and is serving as Dissemination Agent to the Community Facilities District, and David Taussig & Associates, Inc., Newport Beach, California, acted as Special Tax Consultant and CFD Administrator to the Community Facilities District.

Except for certain fees payable from Special Taxes to the Special Tax Consultant, Government Financial Strategies inc. and Appraiser, payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Special Tax Consultant, the Underwriter, Underwriter's Counsel and the Fiscal Agent is contingent upon the sale and delivery of the 2016 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2016 Bonds, certain sections of the Fiscal Agent Agreement, security for the 2016 Bonds, risk factors, the Community Facilities District, the School District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2016 Bonds, the Fiscal Agent Agreement, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2016 Bonds, the Fiscal Agent Agreement, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Deputy Superintendent, Business & Support Services of the Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, California 92675. There may be a charge for copying, mailing and handling of any documents.

CONTINUING DISCLOSURE

The Community Facilities District. The Community Facilities District has covenanted for the benefit of the Owners and Beneficial Owners of the 2016 Bonds to provide certain financial information and operating data relating to the Community Facilities District (the "Community Facilities District Annual Report"), by not later than nine months after the end of each Fiscal Year, commencing with the report for the 2015-16 Fiscal Year (which is due no later than March 31, 2017), and to provide notices of the occurrence of certain enumerated events. The Community Facilities District Annual Report will either be filed by the Community Facilities District or Government Financial Strategies inc., as Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Market Access System (the "EMMA System"), in an electronic format and accompanied by identifying information as prescribed by the MSRB, with a copy to the Fiscal Agent. Any notice of the occurrence of certain enumerated events will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the MSRB through the EMMA System. The specific nature of the information to be contained in the Community Facilities District Annual Report or notices of enumerated events is set forth in the Continuing Disclosure Certificate. The covenants of the Community Facilities District in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). A default under the Continuing Disclosure Certificate will not, in itself, constitute an event of default under the Fiscal Agent Agreement, and the sole remedy under the Continuing Disclosure Certificate in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Continuing Disclosure Certificate will be an action to compel performance.

Prior Disclosure Compliance by the Community Facilities District. The Community Facilities District is the obligated person under the Continuing Disclosure Certificate. A five-year review of compliance with disclosure undertakings for filings required by the Community Facilities District in connection with the prior undertaking under the Rule entered into in connection with the issuance of the 2013 Bonds, indicates the Community Facilities District has filed annual reports in a timely manner and no listed events occurred such that any notices of listed events were required to be filed. The Community Facilities District has developed procedures to ensure that future annual reports and notices of listed events are filed in a timely manner. As of the date of this Official Statement, all required filings have been made in connection with the prior undertakings.

Prior Disclosure Compliance by the School District and Other Community Facilities Districts. The School District and other community facilities districts formed by the School District are not the obligation persons under the Continuing Disclosure Certificate. A review of compliance with disclosure undertakings for filings required by the School District or by other community facilities districts formed by the School District (other than the Community Facilities District), since August 1, 2011, indicates that the School District or other community facilities districts formed by the School District may not have fully complied with their prior continuing disclosure undertakings under the Rule. Identification of the below described events does not constitute a representation by the Community Facilities District, the School District or any other community facilities district formed by the School District that the late filings were material or that the School District or any other community facilities district formed by the School District, other than the Community Facilities District, is an obligated person under the Rule for this transaction. The review indicates (i) that in connection with other community facilities districts formed by the School District, other than the Community Facilities District, certain audited financial statements were filed late in 2012 and 2013 and one annual report was filed late in 2012, (ii) in connection with several series of School Facilities Improvement District No. 1 general obligation bonds, the audited financial statements were filed late in 2012 and the annual report was filed late in 2013 and 2016, and (iii) in connection with two series of certificates of participation, the audited financial statements and the annual report were filed late in 2013 and 2016 with respect to one series of certificates of participation and the audited financial statements were filed late in 2012 with respect to the other series of certificates of participation. In addition, notices of rating changes were not always filed within 10 business days with respect to financings by the School District or community facilities districts formed by the School District (other than the Community Facilities District).

In order to remain in compliance with their respective undertakings in the future, the School District and the community facilities districts, including the Community Facilities District, have implemented procedures to file their annual reports on a timely basis and coordinate the efforts of personnel and firms responsible for preparing and/or monitoring compliance with the respective disclosure undertakings.

THE FINANCING PLAN

In connection with the prospective development of the land in the Community Facilities District, Whispering Hills, LLC, the Developer's predecessor in interest as owner of the land in the Community Facilities District, and the School District entered into an Impact Mitigation Agreement Related to Proposed Community Facilities District No. 2005-1, dated as of July 1, 2005. The Developer's predecessor in interest and the School District had previously entered into a Reimbursement Agreement, dated January 23, 2002, and a Purchase and Sale Agreement and Escrow Agreement Instruction, dated April 28, 2003 (the "School Site Purchase Agreement") (collectively, the "Initial Agreements"). The Community Facilities District was formed by the Legislative Body pursuant to the Act and the Initial Agreements in order to finance the purchase of land by the School District (on which the San Juan Hills High School was subsequently constructed) from Whispering Hills, LLC, to finance facilities for the School District and to finance certain public improvements for the City. In 2007, the Legislative Body conducted proceedings to add certain territory to the Community Facilities District.

Certain disputes arose between Whispering Hills, LLC and the School District regarding the interpretation of provisions of the Initial Agreements, and in order to settle certain litigation filed by Whispering Hills, LLC in connection with such disputes, the School District, the Developer and Whispering Hills, LLC entered into a Settlement Agreement and General Releases, dated as of June 13, 2011 (the "Settlement Agreement"). In furtherance of the provisions of the Settlement Agreement, (i) the School District, the Community Facilities District, Whispering Hills, LLC and the Developer entered into a First Amended Impact Mitigation Agreement Related to the Whispering Hills Project and Community Facilities District No. 2005-1, dated June 13, 2011 (as amended by an Amendment No. 1 thereto, dated September 25, 2013, the "Mitigation Agreement"), (ii) the City, the School District, the Community Facilities District, the Developer and Whispering Hills, LLC entered into a First Amended and Restated Joint Community Facilities Agreement, dated June 13, 2011 (the "Joint Community Facilities Agreement"), and (iii) the Legislative Body conducted proceedings to approve the First Amended Rate and Method. The Mitigation Agreement and the Joint Community Facilities Agreement supersede in their entirety the Initial Agreements, other than the School Site Purchase Agreement.

According to information provided by the Developer, the members of the Developer are Woodbridge Builders, LLC, a Delaware limited liability company ("Woodbridge"), and Whispering Hills, LLC, a Delaware limited liability company ("Whispering Hills"). Woodbridge is the managing member and is a single asset entity affiliated with Woodbridge Pacific Group, a California corporation ("Woodbridge Pacific").

Whispering Hills' sole member is IHP Investment Fund II, L.P., a California limited partnership ("IHP Investment Fund II, L.P."), which is managed by IHP Capital Partners, a California corporation ("IHP Capital Partners"). IHP Investment Fund II, L.P. is an equity fund established to finance for-sale residential projects, with funding provided by institutional investors. IHP Capital Partners is one of the nation's largest investment firms dedicated primarily to providing equity financing for real estate development. Founded in 1992, IHP Capital Partners is the primary real estate investment vehicle of

several of America's largest financial institutions. The firm invests institutional capital in for-sale residential real estate projects throughout the United States. IHP Capital Partners has created neighborhoods and communities valued at more than \$18 billion.

The Mitigation Agreement and the Joint Community Facilities Agreement specify various matters related to the issuance of bonds by the Community Facilities District and the disposition of the proceeds of such bonds. Under the Mitigation Agreement, the Community Facilities District was obligated to sell a first series of the bonds authorized to be issued by the Community Facilities District following the date on which the 70th dwelling unit has been sold to a third party individual owner. The Community Facilities District is obligated to issue a second series of bonds following the date on which the 140th dwelling unit has been sold to a third party individual owner. The 2013 Bonds were the first series of the bonds required to be issued under the Mitigation Agreement. The 2016 Bonds represent the second series of the bonds required to be issued under the Mitigation Agreement. See "SECURITY FOR THE 2016 BONDS – Parity Bonds" for the requirements of the Fiscal Agent Agreement applicable to the issuance of Parity Bonds, some of which are less stringent than the foregoing requirements of the Mitigation Agreement. See also "THE COMMUNITY FACILITIES DISTRICT – General Information" for a description of the development of the property in the Community Facilities District.

The Mitigation Agreement and the Joint Community Facilities Agreement specify the disposition of the proceeds of bonds issued by the Community Facilities District. Those agreements require that Community Facilities District bond proceeds be used: first, to fund costs of issuance of the bonds, a reserve fund for the bonds and any necessary capitalized interest for the bonds; second (with respect to the first series of bonds only), to reimburse the Developer for amounts it provided in connection with the negotiation of the Initial Agreements and the formation of the Community Facilities District, and the Community Facilities District proceedings conducted in 2011 in connection with the Mitigation Agreement and the Joint Community Facilities Agreement; third (with respect to the second series of bonds only), to reimburse the Developer for certain amounts it may advance in connection with the issuance of the second series of bonds; and fourth, (a) with respect to the first series of the bonds, 60% of the remaining proceeds plus certain proceeds of Special Tax levies collected prior to the issuance of any bonds, were to be deposited to a School Facilities Account, with any remaining proceeds deposited to a City Facilities Account, and (b) with respect to the second series of the bonds (the 2016 Bonds), 60% of the remaining proceeds plus an amount equal to a portion of the amount of the proceeds of Special Tax levies collected following the issuance of the 2013 Bonds and the 2016 Bonds (and not needed to pay debt service on the 2013 Bonds and the 2016 Bonds and Administrative Expenses of the Community Facilities District), are to be deposited to the School Facilities Account and the remaining proceeds to the City Facilities Account.

Pursuant to the Mitigation Agreement and the Joint Community Facilities Agreement, proceeds of the 2013 Bonds were deposited into the Incremental Payment Subaccount of the School Facilities Account and used to make incremental payments to the Developer in respect of the purchase price of the school site authorized to be funded by the Community Facilities District in an amount of \$6,000,000 and possible interest thereon under certain circumstances, and once that obligation is satisfied, bond proceeds are to be deposited to a Project Subaccount to be used to pay costs of facilities of the School District authorized to be funded by the Community Facilities District. The Developer received \$4,018,638 in 2013 as partial payment toward this obligation. The remaining amount of \$1,948,381.95 is to be paid from prior Special Tax collections and from the proceeds of the 2016 Bonds.

Proceeds of bonds deposited to the City Facilities Account will be used by the City to pay costs of certain public improvements authorized to be funded by the Community Facilities District and in accordance with the provisions of the Joint Community Facilities Agreement. See "ESTIMATED SOURCES AND USES OF FUNDS" for the expected uses of the proceeds of the 2016 Bonds.

The 2016 Bonds will be Parity Bonds issued in accordance with the parity bond provisions of the Fiscal Agent Agreement. See "SECURITY FOR THE 2016 BONDS – Parity Bonds" and "THE COMMUNITY FACILITIES DISTRICT – General Information."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2016 Bonds will be deposited into the following respective accounts and funds established under the Fiscal Agent Agreement, as follows:

SOURCES	
Principal Amount of 2016 Bonds	\$12,575,000.00
Plus: Original Issue Premium	799,572.60
Less: Underwriter's Discount	(103,743.75)
Total Sources	\$13,270,828.85
USES	
Deposit into School Facilities Account of the Construction Fund (1)	\$7,323,098.05
Deposit into City Facilities Account of the Construction Fund	4,847,530.37
Deposit into Reserve Fund	904,200.43
Deposit into Costs of Issuance Account (2)	171,000.00
Developer reimbursement (3)	25,000.00
Total Uses	\$13,270,828.85

- (1) A portion of the proceeds of the 2016 Bonds, together with prior Special Tax collections, will be used to pay the remaining amount of the \$1,948,381.95 obligation owed to the Developer with respect to the purchase price of the school site.
- (2) Includes, among other things, the fees and expenses of Bond Counsel, Disclosure Counsel, the Financial Advisor and the Appraiser, the cost of printing the preliminary and final Official Statements, the fees of the Special Tax Consultant and reimbursement to the School District.
- (3) Amount to be paid to the Developer to satisfy the School District's obligation under the Mitigation Agreement to reimburse certain amounts advanced or otherwise incurred in connection with the 2016 Bonds or the School District.

THE 2016 BONDS

Authority for Issuance

The 2016 Bonds are authorized pursuant to a resolution adopted by the Legislative Body on July 20, 2016. The 2016 Bonds will be issued pursuant to the Act and the Fiscal Agent Agreement.

General Provisions

The 2016 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on each March 1 and September 1, commencing on March 1, 2017 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page hereof. The 2016 Bonds will be issued in fully-registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2016 Bonds. Ownership interests in the 2016 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2016 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2016 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2016 Bonds in accordance with the procedures adopted by DTC. See "THE 2016 BONDS – Book-Entry and DTC."

Interest on the 2016 Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a 2016 Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th calendar day of the month immediately preceding an Interest Payment Date whether or not such day is a Business Day (the "Record Date"), in which event it will bear interest from such Interest Payment Date, (ii) a 2016 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of issuance of the 2016 Bonds, or (iii) interest on any 2016 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has previously been paid or duly provided for. Interest will be paid in lawful money of the United States of America on each Interest Payment Date. Interest will be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, or by wire transfer made on such Interest Payment Date upon the written instructions of any Owner of \$1,000,000 or more 2016 Bonds to an account within the United States of America, on each Interest Payment Date to the 2016 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Notwithstanding the foregoing, interest on any 2016 Bond which is not punctually paid or duly provided for on any Interest Payment Date will, if and to the extent that amounts subsequently become available therefore, be paid on a payment date established by the Fiscal Agent to the person in whose name the ownership of such 2016 Bond is registered on the Registration Books at the close of business on a special record date to be established by the Fiscal Agent for the payment of such defaulted interest, notice of which will be given to such Owner not less than ten days prior to such special record date

The principal of the 2016 Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Principal Corporate Trust Office of the Fiscal Agent. Payment of principal of any 2016 Bond will be made only upon presentation and surrender of such Bond at the Principal Corporate Trust Office of the Fiscal Agent.

Debt Service Schedule

The following table presents the annual debt service on the 2016 Bonds (including sinking fund redemptions), assuming that there are no early redemptions.

Table 1 Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Scheduled Annual Debt Service on 2016 Bonds

Year Ending September 1	Principal	Interest	Total Debt Service
2017	\$60,000	\$453,169.17	\$513,169.17
2018	65,000	459,650.00	524,650.00
2019	80,000	458,350.00	538,350.00
2020	85,000	456,750.00	541,750.00
2021	105,000	455,050.00	560,050.00
2022	115,000	452,950.00	567,950.00
2023	130,000	450,650.00	580,650.00
2024	145,000	446,750.00	591,750.00
2025	160,000	442,400.00	602,400.00
2026	175,000	437,600.00	612,600.00
2027	195,000	432,350.00	627,350.00
2028	215,000	426,500.00	641,500.00
2029	235,000	417,900.00	652,900.00
2030	260,000	408,500.00	668,500.00
2031	280,000	398,100.00	678,100.00
2032	305,000	386,900.00	691,900.00
2033	330,000	374,700.00	704,700.00
2034	355,000	364,800.00	719,800.00
2035	385,000	354,150.00	739,150.00
2036	410,000	342,600.00	752,600.00
2037	440,000	330,300.00	770,300.00
2038	470,000	317,100.00	787,100.00
2039	495,000	303,000.00	798,000.00
2040	535,000	283,200.00	818,200.00
2041	570,000	261,800.00	831,800.00
2042	605,000	239,000.00	844,000.00
2043	650,000	214,800.00	864,800.00
2044	1,480,000	188,800.00	1,668,800.00
2045	1,570,000	129,600.00	1,699,600.00
2046	1,670,000	66,800.00	1,736,800.00
	\$12,575,000	\$10,754,219.17	\$23,329,219.17

Estimated Debt Service Coverage

Non Dooldonti

The following table presents the estimated Net Taxes, annual debt service on the 2016 Bonds (including sinking fund redemptions), assuming that there are no early redemptions, and resulting estimated debt service coverage.

Table 2 Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Debt Service Coverage from Net Taxes

Bond Year Ending September 1	Residential Developed Special Tax Revenues ⁽¹⁾⁽²⁾	Non-Residentia Developed Special Tax Revenues	Annual Administrative Expenses ⁽³⁾	Net Special Tax Revenues	Series 2013 Debt Service	Series 2016 Debt Service	Total Debt Service	Coverage from Developed Property ⁽⁴⁾
2017	\$1,138,070	\$0	\$53,060	\$1,085,010	\$461,750	\$513,169	\$974,919	111.29%
2018	1,160,831	0	54,122	1,106,710	470,400	524,650	995,050	111.22
2019	1,184,048	0	55,204	1,128,844	478,750	538,350	1,017,100	110.99
2020	1,207,729	0	56,308	1,151,421	491,800	541,750	1,033,550	111.40
2021	1,231,884	0	57,434	1,174,449	498,600	560,050	1,058,650	110.94
2022	1,256,521	0	58,583	1,197,938	510,000	567,950	1,077,950	111.13
2023	1,281,652	0	59,755	1,221,897	520,800	580,650	1,101,450	110.94
2024	1,307,285	0	60,950	1,246,335	531,000	591,750	1,122,750	111.01
2025	1,333,430	0	62,169	1,271,262	540,263	602,400	1,142,663	111.25
2026	1,360,099	0	63,412	1,296,687	553,700	612,600	1,166,300	111.18
2027	1,387,301	0	64,680	1,322,621	561,050	627,350	1,188,400	111.29
2028	1,415,047	0	65,974	1,349,073	572,494	641,500	1,213,994	111.13
2029	1,443,348	0	67,293	1,376,054	588,013	652,900	1,240,913	110.89
2030	1,472,215	0	68,639	1,403,576	597,088	668,500	1,265,588	110.90
2031	1,501,659	0	70,012	1,431,647	609,588	678,100	1,287,688	111.18
2032	1,531,692	0	71,412	1,460,280	620,838	691,900	1,312,738	111.24
2033	1,562,326	0	72,841	1,489,486	635,838	704,700	1,340,538	111.11
2034	1,593,573	0	74,297	1,519,275	648,925	719,800	1,368,725	111.00
2035	1,625,444	0	75,783	1,549,661	655,325	739,150	1,394,475	111.13
2036	1,657,953	0	77,299	1,580,654	669,150	752,600	1,421,750	111.18
2037	1,691,112	0	78,845	1,612,267	681,050	770,300	1,451,350	111.09
2038	1,724,934	0	80,422	1,644,512	696,025	787,100	1,483,125	110.88
2039	1,759,433	0	82,030	1,677,403	713,800	798,000	1,511,800	110.95
2040	1,794,622	0	83,671	1,710,951	724,100	818,200	1,542,300	110.94
2041	1,830,514	0	85,344	1,745,170	742,200	831,800	1,574,000	110.87
2042	1,867,124	0	87,051	1,780,073	757,550	844,000	1,601,550	111.15
2043	1,904,467	0	88,792	1,815,675	770,150	864,800	1,634,950	111.05
2044	1,942,556	0	90,568	1,851,988	0	1,668,800	1,668,800	110.98
2045	1,981,407	0	92,379	1,889,028	0	1,699,600	1,699,600	111.15
2046	2,021,035	0	94,227	1,926,808	0	1,736,800	1,736,800	110.94

⁽¹⁾ Special Tax Revenues based on 100.00% of the Assigned Special Tax rates. The Assigned Special rates escalate by 2.00% per year. Fiscal Year 2016-17 includes 139 permits issued prior to the January 1, 2016, cutoff for Developed Property of which as of June 1, 2016, 131 are completed homes with closed sales to individual homeowners. Assumes no future development thereafter and no Special Taxes levied with respect to the 15 custom lots.

Source: David Taussig & Associates, Inc.

Pursuant to Section 53321(d) of the Government Code as in effect at the time of formation of the Community Facilities District, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased by more than 10% as a consequence of delinquency or default by the owner of any other Assessor's parcel within the Community Facilities District. As a result, it is possible that the School District may not be able to increase the tax levy to the assigned special tax in all years.

⁽³⁾ Based on Administrative Expense Requirement equal to \$53,060 in Fiscal Year 2016-17, escalated by 2.00% per year thereafter.

⁽⁴⁾ Calculated by dividing the Net Special Tax Revenues column by the Series 2016 Debt Service column. One parcel was delinquent in the payment of Special Taxes as of July 25, 2016, and excluding Special Taxes from that parcel, coverage from Special Taxes on Developed Property is at least 1.10 times the Series 2016 Debt Service column. As of August 17, 2016, that parcel has paid the delinquent Special Taxes.

Redemption

Optional Redemption. The 2016 Bonds maturing on and after September 1, 2024 are subject to redemption in authorized denominations, in whole or in part, on any date on and after September 1, 2023, at the following respective redemption prices (expressed as percentages of the principal amount of the 2016 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

Redemption Date	Redemption Price
September 1, 2023 through August 31, 2024	102%
September 1, 2024 through August 31, 2025	101
September 1, 2025 and any date thereafter	100

Special Mandatory Redemption from Prepaid Special Taxes. The 2016 Bonds are subject to mandatory redemption, in whole or in part, in authorized denominations on any Interest Payment Date, from and to the extent of any prepayment of Special Taxes, at the following respective Redemption Prices (expressed as percentages of the principal amount of the 2016 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

Redemption Date	Redemption Price
Any Interest Payment Date beginning March 1, 2017 through	
and including March 1, 2023	103%
September 1, 2023 and March 1, 2024	102
September 1, 2024 and March 1, 2025	101
September 1, 2025 and any Interest Payment Date thereafter	100

Mandatory Sinking Fund Redemption. The 2016 Bonds, maturing on September 1, 2036, September 1, 2038 and September 1, 2046 are subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 2035, September 1, 2037 and September 1, 2039, respectively, at a redemption price equal to the principal amount of the 2016 Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

Bonds Maturing on September 1, 2036

Sinking Fund Redemption Date	Principal Amount
(September 1)	to be Redeemed
2035	\$385,000
2036 (maturity)	410.000

Bonds Maturing on September 1, 2038

Sinking Fund Redemption Date	Principal Amount
(September 1)	to be Redeemed
2037	\$440,000
2038 (maturity)	470,000

Bonds Maturing on September 1, 2046

Sinking Fund Redemption Date	Principal Amount
(September 1)	to be Redeemed
2039	\$495,000
2040	535,000
2041	570,000
2042	605,000
2043	650,000
2044	1,480,000
2045	1,570,000
2046 (final maturity)	1,670,000

If some but not all of the 2016 Bonds maturing on September 1, 2036, September 1, 2038 and September 1, 2046, respectively, are redeemed pursuant to optional redemption, the principal amount of 2016 Bonds maturing on September 1, 2036, September 1, 2038 and September 1, 2046, respectively, to be redeemed pursuant to sinking fund redemption on any subsequent September 1 will be reduced, by \$5,000 or an integral multiple thereof, as designated by the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Fiscal Agent; *provided, however*, that the aggregate amount of such reductions will not exceed the aggregate amount of 2016 Bonds maturing on September 1, 2036, September 1, 2038 and September 1, 2046, respectively, redeemed pursuant to optional redemption.

Purchase In Lieu of Redemption. In lieu of, or partially in lieu of, any Optional Redemption or Special Mandatory Redemption from Prepaid Special Taxes, moneys deposited in an account of the Redemption Fund may be used to purchase the Outstanding 2016 Bonds that were to be redeemed with such funds in the manner provided in the Fiscal Agent Agreement. Purchases of Outstanding 2016 Bonds may be made by the Community Facilities District prior to the selection of 2016 Bonds for redemption by the Community Facilities District and Fiscal Agent, at public or private sale as and when and at such prices as the Community Facilities District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, and, in the case of funds in the Optional Redemption Account or the Mandatory Redemption Account, the applicable premium to be paid in connection with the proposed redemption. Any accrued interest payable upon the purchase of 2016 Bonds may be paid from the Interest Account of the Bond Fund for payment of interest on the next following Interest Payment Date.

Notice of Redemption. The Fiscal Agent will mail, at least thirty (30) days but no more than sixty (60) days prior to the redemption date, notice of redemption to the respective Registered Owners of the 2016 Bonds appearing on the 2016 Bond register books (the "Bond Register"). Such notice of redemption will (a) specify the CUSIP numbers and serial numbers of the 2016 Bonds selected for redemption, except that where all the 2016 Bonds or all 2016 Bonds of a single maturity are subject to redemption, the serial numbers thereof need not be specified; (b) state the original issue date, the interest rate and the maturity date of the 2016 Bond selected for redemption; (c) state the date fixed for redemption; (d) state the redemption price; (e) state the place or places where the 2016 Bonds are to be redeemed; and (f) in the case of 2016 Bonds to be redeemed only in part, state the portion of such 2016 Bond which is to be redeemed.

The actual receipt by the Owner of any 2016 Bond of notice of such redemption will not be a condition precedent thereto, and neither failure to receive such notice nor any defect therein will affect the validity of the proceedings for the redemption of such 2016 Bond, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as herein

provided will be conclusive as against all parties, and it will not be open to any Owner to show that he or she failed to receive notice of such redemption.

Contingent Notice of Redemption; Rescission. Any notice of optional redemption may specify that redemption of the 2016 Bonds designated for redemption on the specified date will be subject to the receipt by the Community Facilities District and/or the Fiscal Agent, as applicable, of moneys sufficient to cause such redemption, and neither the Community Facilities District nor the Fiscal Agent will have any liability to the Owners of any Bonds, or any other party, as a result of the Community Facilities District's failure to redeem the 2016 Bonds and Parity Bonds designated for redemption as a result of insufficient moneys therefor.

Any notice of an optional redemption may be cancelled and annulled if for any reason funds are not, or will not, be available on the date fixed for redemption for the payment in full of the 2016 Bonds then called for redemption. Such cancellation and annulment is not a default under the Fiscal Agent Agreement. The Community Facilities District will not have any liability to the Bondowners, or any other party, as a result of the Community Facilities District's failure to redeem the 2016 Bonds designated for redemption as a result of insufficient moneys therefore.

Additionally, the Community Facilities District may rescind any optional redemption of the 2016 Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the 2016 Bonds so called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission. Neither the Community Facilities District nor the Fiscal Agent will have any liability to the Owners of any 2016 Bonds, or any other party, as a result of the Community Facilities District's decision to rescind redemption of any 2016 Bonds pursuant to these provisions.

Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly given, as provided in the Fiscal Agent Agreement, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

- (1) the 2016 Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Fiscal Agent Agreement, anything in the Fiscal Agent Agreement, or in the 2016 Bonds, to the contrary notwithstanding;
- (2) upon presentation and surrender thereof at the Principal Corporate Trust Office of the Fiscal Agent, or such other location as may be designated by the Fiscal Agent, such 2016 Bond will be redeemed at the said redemption price;
- (3) from and after the redemption date, the 2016 Bonds or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such 2016 Bonds or portions thereof will cease to bear further interest; and
- (4) from and after the date fixed for redemption, no Owner of any of the 2016 Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Fiscal Agent Agreement, 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.

Registration, Transfer and Exchange

Registration. Subject to the provisions of the Fiscal Agent Agreement relating to book-entry bonds, the Fiscal Agent will keep, or cause to be kept, at the Principal Corporate Trust Office of the Fiscal Agent, sufficient records for the registration and transfer of ownership of the 2016 Bonds will be open to inspection during regular business hours and upon reasonable notice by the Community Facilities District, and upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2016 Bonds. The Community Facilities District and the Fiscal Agent may treat and consider the person in whose name each 2016 Bonds is registered in the Bond Register as the holder and absolute Owner of such 2016 Bond for the purpose of payment of principal of, interest, and premium, if any, with respect to such 2016 Bond, for the purpose of giving notices of redemption, if applicable, and other matters with respect to such 2016 Bond, for the purpose of registering transfers with respect to such 2016 Bond and for all other purposes whatsoever under the Fiscal Agent Agreement.

Registration of Exchange or Transfers of 2016 Bonds. Subject to the provisions of the Fiscal Agent Agreement relating to book-entry bonds, the registration of any 2016 Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2016 Bond for cancellation at the Principal Corporate Trust Office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. 2016 Bonds may be exchanged at the Principal Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount and maturity of 2016 Bonds of other authorized denominations. The Fiscal Agent may charge the Bondowner any tax or other governmental charge required with respect to such transfer or exchange. Whenever any 2016 Bonds shall be surrendered for registration of transfer or exchange, the Community Facilities District will execute, and the Fiscal Agent will authenticate and deliver, a new 2016 Bond, for a like aggregate principal amount and maturity; provided, that the Fiscal Agent will not be required to register transfers or make exchanges of: (i) 2016 Bonds for a period of 15 days next preceding the date established by the Fiscal Agent for selection of the 2016 Bonds to be redeemed, or (ii) any 2016 Bonds chosen for redemption.

Exchange of 2016 Bonds. Subject to the provisions of the Fiscal Agent Agreement relating to book-entry bonds, 2016 Bonds may be exchanged at the Principal Corporate Trust Office of the Fiscal Agent for a like aggregate principal amount of 2016 Bonds of authorized denominations, interest rate and maturity, subject to the terms and conditions of the Fiscal Agent Agreement, including the payment of certain charges, if any, upon surrender and cancellation of a 2016 Bond.

Book-Entry and DTC

DTC will act as securities depository for the 2016 Bonds. The 2016 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 2016 Bond certificate will be issued for each maturity of the 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX G – "Book-Entry System."

SECURITY FOR THE 2016 BONDS

General

Pursuant to the Act and the Fiscal Agent Agreement, the 2016 Bonds and Parity Bonds are equally payable from the Net Taxes without priority for number, date of the 2016 Bonds and Parity Bonds, date of sale, date of execution or date of delivery, and the payment of the interest on and principal of the 2016 Bonds and Parity Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and amounts held in the following funds and accounts created under the Fiscal Agent Agreement: the Special Tax Fund, the Bond Fund, the Reserve Fund, and the Redemption Fund (and all accounts of the foregoing funds), which are pledged for the payment of the 2016 Bonds and Parity Bonds, and such Net Taxes and any interest earned on the Net Taxes constitute a trust fund for the payment of the interest on and principal of the 2016 Bonds and Parity Bonds and so long as any of the 2016 Bonds and Parity Bonds or interest thereon are unpaid the Net Taxes and interest thereon will not be used for any other purpose, except as permitted by the Fiscal Agent Agreement or any Supplement, and shall be held in trust for the benefit of the Bondowners and shall be applied pursuant to the Fiscal Agent Agreement, or any Supplement pursuant to provisions therein. Notwithstanding any provision contained in the Fiscal Agent Agreement to the contrary, Net Taxes deposited in the Administrative Expense Fund, the Construction Fund, the Rebate Fund and the Surplus Facilities Fund are no longer considered to be pledged to the 2016 Bonds or Parity Bonds and the Administrative Expense Fund, the Construction Fund, the Rebate Fund and the Surplus Facilities Fund (including all accounts of the foregoing funds), will not be construed as trust funds held for the benefit of the Bondowners.

Pursuant to the Act and the Fiscal Agent Agreement, the Community Facilities District will annually fix and levy the amount of Special Taxes within the Community Facilities District required for the payment of principal of and interest on Outstanding 2016 Bonds and Parity Bonds becoming due and payable during the ensuing year (including any necessary replenishment or expenditure of the Reserve Fund for the 2016 Bonds and Parity Bonds), an amount equal to the Administrative Expense Requirement, and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes.

The School Facilities and City Facilities constructed and acquired with the proceeds of the 2016 Bonds or any Parity Bonds are not in any way pledged to pay the debt service on the 2016 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2016 Bonds or Parity Bonds are not pledged to pay the debt service on the 2016 Bonds or Parity Bonds.

Special Taxes

The Community Facilities District has covenanted in the Fiscal Agent Agreement to comply with all requirements of the Act so as to assure the timely collection of Special Taxes, including without limitation, the enforcement of delinquent Special Taxes. The First Amended Rate and Method provides that the Special Taxes will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, *provided, however*, that the Community Facilities District may directly bill the Special Tax and may collect the Special Tax at a different time or in a different manner if necessary to meet its financial obligations.

Because the Special Tax levy is limited to the Maximum Special Tax rates set forth in the First Amended Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipt of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2016 Bonds.

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation, it does not constitute a personal indebtedness of the owners of property. There is no assurance that the owners of real property will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. See "BONDOWNERS' RISKS" herein.

THE 2016 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2016 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2016 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2016 BONDS. OTHER THAN THE SPECIAL TAXES LEVIED PURSUANT TO THE FIRST AMENDED RATE AND METHOD, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2016 BONDS. THE 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES LEVIED PURSUANT TO THE FIRST AMENDED RATE AND METHOD, AS MORE FULLY DESCRIBED HEREIN.

First Amended Rate and Method

The Special Taxes will be levied and collected according to the First Amended Rate and Method, which provides the means by which the Legislative Body may annually levy the Special Taxes within the Community Facilities District, up to the maximum Special Tax rates, and to determine the amount of the Special Taxes that will need to be collected each Fiscal Year from the "Taxable Property" within the Community Facilities District.

The following is a synopsis of the provisions of the First Amended Rate and Method, which should be read in conjunction with the complete text of the First Amended Rate and Method which is included in APPENDIX B. Capitalized terms used but not defined in this section have the meanings given them in the First Amended Rate and Method. This section provides only a summary of the First Amended Rate and Method, and is qualified by more complete and detailed information contained in the entire First Amended Rate and Method included in APPENDIX B.

The First Amended Rate and Method defines five categories of Taxable Property: "Developed Property," "Taxable Public Property," "Taxable Property Owner Association Property," "Taxable Religious Property" and "Undeveloped Property." Undeveloped Property becomes "Custom Lot Property" at the close of escrow of the sale of such property to an owner other than Rancho San Juan Development LLC or upon the issuance of a building permit for the property.

Developed Property, other than Custom Lot Property, is distinguished from Undeveloped Property by the issuance of a building permit. Specifically, property for which a building permit was issued as of January 1 will be classified as Developed Property in the following fiscal year.

The Special Tax is levied each year as follows:

First: The Special Tax shall be levied proportionately on each parcel of Developed Property in the Community Facilities District at 100% of the applicable Assigned Special Tax;

Second: If additional moneys are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax will be levied Proportionally on each Assessor's Parcel of Undeveloped Property at 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 the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessors' Parcel;

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax will be levied Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property at up to 100% of the Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

The Special Tax may be levied on parcels of Taxable Property in the Community Facilities District in each Fiscal Year in an amount sufficient to pay (i) debt service on the 2016 Bonds and Parity Bonds, (ii) pay periodic cost on the 2016 Bond and Parity Bonds, (iii) pay reasonable Administrative Expenses, (iv) pay any amounts required to establish or replenish any reserve fund for all outstanding 2016 Bonds and Parity Bonds, (v) pay directly for construction of facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property, and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes in the previous Fiscal Year. It is expected that the Special Tax will be levied at the maximum permissible amounts on Developed Property with any Special Taxes collected and not needed for purposes described in the preceding clauses (i), (ii), (iii) and (iv) to be used for purposes described in the preceding clause (v). (See "SECURITY FOR THE 2016 BONDS.")

Special Tax Levy

Special Taxes in the amount of \$1,138,070 are estimated to be levied on all 139 parcels within the Community Facilities District for Fiscal Year 2016-17.

Table 3 below summarizes the projected Fiscal Year 2016-17 Special Tax levy to be made in accordance with the First Amended Rate and Method:

Table 3
Community Facilities District No. 2005-1 (Whispering Hills)
of the Capistrano Unified School District

Projected Fiscal Year 2016-17 Special Tax Levy

Land Use	Number of Units/Acres	Fiscal Year 2016-17 Assigned/Maximum Special Tax ⁽¹⁾	Estimated Fiscal Year 2016-17 Actual Special Tax	Percent of Assigned/ Maximum Special Tax
Residential Property				
Custom Lot	0	\$15,348.93 per unit	\$15,348.93 per unit	100.00%
SFR > 4,600 SF	24	9,500.62 per unit	9,500.62 per unit	100.00
SFR 4,301 - 4,600 SF	13	8,672.55 per unit	8,672.55 per unit	100.00
SFR 3,901 - 4,300 SF	28	8,432.97 per unit	8,432.97 per unit	100.00
SFR 3,701 - 3,900 SF	28	7,844.49 per unit	7,844.49 per unit	100.00
SFR 3,401 - 3,700 SF	25	7,707.59 per unit	7,707.59 per unit	100.00
SFR 2,901 - 3,400 SF	11	7,332.20 per unit	7,332.20 per unit	100.00
SFR < 2,901 SF	<u>10</u>	6,819.91 per unit	<u>6,819.91</u> per unit	100.00
Total/Average (2)	139	\$8,187.55 per unit	\$8,187.55 per unit	100.00%
Non-Residential Property	0.00	\$23,185.70 per Acre	\$0.00 per Acre	0.00%
Undeveloped Property	11.55	\$23,721.18 per Acre	\$0.00 per Acre	0.00%
Backup Special Tax	NA	\$23,721.18 per Acre	\$0.00 per Acre	0.00%
Total Assigned/Maximum Special Taxes		\$1,411,931	\$1,138,070	

⁽¹⁾ Based on the Assigned Special Tax rates for Residential and Non-Residential Property and the Maximum Special Tax rate for Undeveloped Property. The assigned and maximum rates increase by 2.00% per year.

Source: David Taussig & Associates, Inc.

⁽²⁾ Does not include one unit which prepaid its special tax obligation in December 2013 and will not be levied.

As indicated above, under the First Amended Rate and Method, the Community Facilities District levies on Developed Property in an amount equal to the Assigned Special Tax. A portion of the Special Tax Requirement may be utilized for acquisition and/or construction of facilities eligible under the Act. In the event the Community Facilities District were to levy Special Taxes on Developed Property at less than the Assigned Special Tax, pursuant to Section 53321(d) of the Act and a resolution adopted by the Community Facilities District, under no circumstances will the Special Tax levied against any parcel used for private residential purposes be increased as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District by more than 10%. For such purposes, a parcel will be considered used for private residential purposes not later than the date on which an occupancy permit for private residential use is issued.

Proceeds of Foreclosure Sales

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax, the Community Facilities District may order the institution of a superior court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory.

Under the Fiscal Agent Agreement, the Community Facilities District covenants for the benefit of the Owners of the 2016 Bonds and Parity Bonds that it: (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$15,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Fund is at less than its required balance, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing and provided that the County of Orange is then including the Community Facilities District in the County's "Teeter Plan" method of apportionment and distribution of community facilities district special taxes, the Community Facilities District may elect to defer foreclosure proceedings on any parcel which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in excess of \$15,000 so long as (1) the amount in the Reserve Fund is at least equal to the Reserve Requirement, and (2) with respect to the 2016 Bonds and any Parity Bonds, the Community Facilities District is not in default in the payment of the principal of or interest on the 2016 Bonds and any Parity Bonds. The Community Facilities District may, but is not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Fund at the Reserve Requirement or to avoid a default in payment on the 2016 Bonds and any Parity Bonds.

The Community Facilities District covenants 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 2016 Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Fund up to the Reserve Requirement, and to pay any delinquent installments of principal or interest due on the 2016 Bonds and any Parity Bonds.

It should be noted that any foreclosure proceedings commenced as described above could be stayed by the commencement of bankruptcy proceedings by or against the owner of the delinquent property. See "BONDOWNERS' RISKS – Bankruptcy and Foreclosure Delay."

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See "BONDOWNERS' RISKS – Potential Delay and Limitations in Foreclosure Proceedings." If a judgment of foreclosure and order of sale is

obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days 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, his 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. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the 2016 Bonds Outstanding.

No assurances can be given that the 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 Act does not require the School District or the Community Facilities District to purchase or otherwise acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as for *ad valorem* property taxes.

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the First Amended Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2016 Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2016 Bonds by the Fiscal Agent Agreement. The levy of Special Taxes is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of and the limitation imposed by Section 53321(d) of the Act as applied to the Community Facilities District. See "SECURITY FOR THE 2016 BONDS – Special Tax Levy."

Special Tax Fund

Pursuant to the Fiscal Agent Agreement, the Special Taxes and other amounts constituting Gross Taxes collected by the Community Facilities District at any time (exclusive of Prepaid Special Taxes received which will be deposited into the Prepayment Account of the Special Tax Fund) will be transferred no later than 10 days after receipt thereof to the Fiscal Agent and will be held in the Special Tax Fund (exclusive of the Administrative Expense Requirement), for the benefit of the Bondowners and will, exclusive of the prepaid Special Taxes held in the Prepayment Account, be transferred or applied to the funds and accounts set forth below, in the priority set forth below and at the times and in the amounts and in accordance with the Fiscal Agent:

- (a) To the Administrative Expense Fund, an amount specified in writing by the Community Facilities District, up to the Administrative Expense Requirement;
- (b) To the Interest Account of the Bond Fund an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date will be equal to the installment of interest due on the 2016 Bonds and Parity Bonds on such Interest Payment Date. Moneys in the Interest Account will be used for the payment of interest on the 2016 Bonds and Parity Bonds as the same become due;

- (c) To the Principal Account of the Bond Fund, an amount up to the amount needed to make the principal payment due on the 2016 Bonds and Parity Bonds during the current Bond Year;
- (d) To the Sinking Fund Redemption Account of the Redemption Fund an amount up to the amount needed to make the Mandatory Sinking Payments due on the 2016 Bonds and Parity Bonds during the current Bond Year;
- (e) To the Reserve Fund, the amount, if any, necessary to replenish the Reserve Fund to the Reserve Requirement;
- (f) Provided all the amounts due in the current Bond Year are funded under (b), (c), (d) and (e) above, to the extent there are additional Administrative Expenses, to the Administrative Expense Fund in the amount specified in writing by the Community Facilities District required to bring the balance therein to the amount needed to pay such expenses;
- (g) Any remaining Special Taxes and other amounts constituting Gross Taxes will remain in the Special Tax Fund subject to the provisions of (h), below; and
- (h) Any remaining Special Taxes and other amounts constituting Gross Taxes, if any, will remain in the Special Tax Fund until the end of the Bond Year. Provided there are no Special Taxes levied or projected to be levied on Undeveloped Property at the end of the Bond Year, any remaining funds in the Special Tax Fund which are not required to cure a delinquency in the payment of principal and interest on the 2016 Bonds and Parity Bonds (including payment of Mandatory Sinking Payments due during the current Bond Year), to restore the Reserve Fund as provided for in (e), above, or to pay current or pending Administrative Expenses as provided for in (a) and (f), above, will be deposited in the accounts of the Surplus Facilities Fund, and all such transferred amounts will be free and clear of any lien thereon or under the Fiscal Agent Agreement, or pledge to the Bondowners, subject to the further requirements set forth as follows: (i) any funds which are required to cure any delinquency described above will be retained in the Special Tax Fund and expended or transferred, at the earliest possible date, for such purpose, and (ii) prior to any transfers to the Surplus Facilities Fund the Fiscal Agent will check that the Reserve Requirement level will be met as of the first day of the next Bond Year (September 2).

At the date of the redemption, defeasance or maturity of the last Bonds and after all principal and interest then due on any Bonds has been paid or provided for, all other covenants are complied with, and all fees and expenses of the Fiscal Agent have been paid, moneys in the Special Tax Fund will be transferred to the Community Facilities District by the Fiscal Agent and may be used by the Community Facilities District for any lawful purpose under the Community Facilities District proceedings.

Funds in the Special Tax Fund will be invested in accordance with the Fiscal Agent Agreement. Investment earnings on amounts in the Special Tax Fund, if any, will be retained therein.

Bond Fund

The Fiscal Agent will hold the Bond Fund in trust for the benefit of the Bondowners. Within the Bond Fund the Fiscal Agent will create and hold an Interest Account and a Principal Account.

One business day prior to each Interest Payment Date, the Fiscal Agent will withdraw from the Special Tax Fund or the Reserve Fund (in the event sufficient moneys are unavailable in the Special Tax Fund) and deposit in the Principal Account and the Interest Account of the Bond Fund an amount equal to

all of the principal and all of the interest due and payable on 2016 Bonds and Parity Bonds on the ensuing Interest Payment Date, less amounts on hand in the Bond Fund available to pay principal and/or interest on such 2016 Bonds and Parity Bonds. Notwithstanding the foregoing, amounts in the Bond Fund resulting from transfers from the Construction Fund (if any) will be used to pay the principal of and interest on such Bonds prior to the use of any other amounts in the Bond Fund for such purpose. The Fiscal Agent shall apply moneys in the Interest Account and Principal Account to the payment of interest and principal, respectively, on the 2016 Bonds and Parity Bonds on each Interest Payment Date.

If amounts in the Bond Fund are insufficient for the purposes set forth in the preceding paragraph, the Fiscal Agent will withdraw the deficiency from the Reserve Fund to the extent of any funds therein.

Redemption Fund

Moneys in the Redemption Fund will be set aside and used solely for the purpose of redeeming Bonds in accordance with the Fiscal Agent Agreement.

Reserve Fund

In order to further secure the payment of principal of and interest on the 2016 Bonds, certain proceeds of the 2016 Bonds will be deposited into the Reserve Fund in an amount such that the total amount in the Reserve Fund will be equal to the Reserve Requirement (see "ESTIMATED SOURCES AND USES OF FUNDS" herein). The Reserve Requirement is defined in the Fiscal Agent Agreement to mean, with respect to the 2016 Bonds and the Parity Bonds, an amount, as of any date of calculation, equal to the least of: (i) 10% of the original principal amount of the 2016 Bonds and Parity Bonds, (ii) Maximum Annual Debt Service on the 2016 Bonds and the Parity Bonds, or (iii) 125% of average Annual Debt Service on the 2016 Bonds and Parity Bonds.

There will be maintained in the Reserve Fund an amount equal to the Reserve Requirement. Notwithstanding the foregoing, in the event of a redemption or partial defeasance of the Bonds, the Reserve Requirement will thereafter be re-determined by the Community Facilities District and communicated to the Fiscal Agent in writing and any funds in excess of such re-determined Reserve Requirement will be utilized as described herein. If Special Taxes are prepaid and 2016 Bonds and/or Parity Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of Bonds to be redeemed and the original principal of the 2016 Bonds and Parity Bonds, but not in excess of the amount of funds available as a result of the re-determination of the Reserve Requirement) will be applied to the redemption of the Bonds.

Except as provided in the next paragraph with respect to certain investment earnings, moneys in the Reserve Fund will be used solely for the purpose of: (i) making transfers to the Bond Fund or Redemption Fund to pay the principal of, including Mandatory Sinking Payments, and interest on 2016 Bonds and Parity Bonds when due to the extent that moneys in the Interest Account and the Principal Account of the Bond Fund or moneys in the Sinking Fund Redemption Account are insufficient therefor; (ii) making any required transfer to the Rebate Fund upon written direction from the Community Facilities District, (iii) making any transfers to the Bond Fund or Redemption Fund in connection with prepayments of the Special Taxes; (iv) paying the principal and interest due on 2016 Bonds and Parity Bonds in the final Bond Year, and (v) application to the defeasance of Bonds in accordance with the Fiscal Agent Agreement. If the amounts in the Interest Account or the Principal Account of the Bond Fund and the Sinking Fund Redemption Account of the Redemption Fund are insufficient to pay the principal of, including Mandatory Sinking Payments, or interest on the 2016 Bond and Parity Bonds when due, the Fiscal Agent will, one Business Day prior to an Interest Payment Date, withdraw from the

Reserve Fund for deposit in the Interest Account and the Principal Account of the Bond Fund, or the Sinking Fund Redemption Account of the Redemption Fund, moneys necessary for such purpose. Following any transfer to the Interest Account or the Principal Account of the Bond Fund, or the Sinking Fund Redemption Account of the Redemption Fund, the Fiscal Agent will notify the Community Facilities District of the amount needed to replenish the Reserve Fund to the Reserve Requirement and the Community Facilities District will include such amount as is required at that time to correct such deficiency in the next Special Tax levy to the extent of the permitted maximum Special Tax rates.

Notwithstanding anything herein to the contrary, the Fiscal Agent will transfer to the Reserve Fund, from available moneys in the Special Tax Fund, the amount needed to restore the Reserve Fund to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Fund only if such amounts will not be needed to make the deposit required to be made to the Interest Account and the Principal Account of the Bond Fund or the Sinking Fund Redemption Account of the Redemption Fund for the next Interest Payment Date.

Moneys in the Reserve Fund will be invested and deposited as described in "Investment of Moneys in Funds" below.

See APPENDIX D – "Summary of Certain Provisions of the Fiscal Agent Agreement" for a description of the timing, purpose and manner of disbursements from the Reserve Fund.

Administrative Expense Fund

The Fiscal Agent will receive the transfer of Special Taxes from the Community Facilities District from the Special Tax Fund and deposit in the Administrative Expense Fund an amount to pay Administrative Expenses.

Pursuant to the Fiscal Agent Agreement, moneys in the Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the 2016 Bonds and will not be available for the payment of debt service on the 2016 Bonds.

Construction Fund

The Fiscal Agent will receive a portion of the proceeds of the 2016 Bonds and deposit the same (i) in the Project Subaccount of the School Facilities Account of the Construction Fund, (ii) in the Incremental Payment Subaccount of the School Facilities Account of the Construction Fund, (iii) in the City Facilities Account of the Construction Fund and (iv) in the Costs of Issuance Account of the Construction Fund. Moneys in the Construction Fund, and Accounts and Subaccounts thereof, will be disbursed to pay for the authorized facilities pursuant to an executed payment request of the Community Facilities District, except that moneys in the Costs of Issuance Account of the Construction Fund will be disbursed to pay for costs of issuance.

Pursuant to the Fiscal Agent Agreement, moneys in the Construction Fund will not be construed as a trust fund held for the benefit of the Owners of the 2016 Bonds and will not be available for the payment of debt service on the 2016 Bonds.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent will be invested by the Fiscal Agent in Permitted Investments, as directed by the Community Facilities District, that mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. In the absence of any direction from the Community Facilities District, the Fiscal Agent will invest, to the extent reasonably practicable, any such moneys in money market funds rated "AAm-1" or "AAm-G" by S&P, or better (including those of the Fiscal Agent or its affiliates). See APPENDIX D – "Summary of Certain Provisions of the Fiscal Agent Agreement" for a definition of "Permitted Investments."

Payment of Rebate Obligation

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the Fiscal Agent Agreement. If necessary, the Community Facilities District may use amounts in the Special Tax Fund, or amounts on deposit in the Administrative Expense Fund and other funds available to the Community Facilities District (except amounts required to pay debt service on the 2016 Bonds) to satisfy rebate obligations.

Parity Bonds

The Community Facilities District may issue Parity Bonds for refunding purposes and in conjunction therewith, may issue new money bonds so long as the covenants relating to the issuance of Parity Bonds are satisfied. Among such covenants are the following provisions:

- (a) Minimum Debt Service Coverage. The Community Facilities District must receive one or more certificates from one or more Independent Financial Consultants which, when taken together (if there is more than one), certify that: (i) the amount of the Assigned Special Taxes that may be levied in each remaining Bond Year on all parcels for which building permits are issued as of the "date of valuation" (as defined below) that are not known by the Community Facilities District to be delinquent in the payment of any Special Taxes, assessments or ad valorem property taxes then due and owing (such parcels to be referred to herein as the "Appraised Developed Property"), plus (ii) the projected Assigned Special Taxes for all parcels to be developed as Custom Lot Property and not otherwise included under prior subsection (i), is at least the sum of (A) 1.10 times the Annual Debt Service for each corresponding Bond Year on all Outstanding Bonds and the Parity Bonds proposed to be issued (less any amounts for capitalized interest that may be available in a Bond Year), and (B) the Administrative Expense Requirement. For purposes of making this certification, the Independent Financial Consultant(s) may rely on any reports or certificates as may be acceptable to the Community Facilities District and the underwriter of the proposed Parity Bonds.
- (b) <u>Minimum Value-to-Lien Ratio for Appraised Developed Property</u>. The "Appraised Developed Property Value" (as defined below) must be at least six times the sum of:
 - (i) "Direct Debt for Appraised Developed Property," which is defined as that portion of the aggregate principal amount of the Outstanding Bonds and the proposed Parity Bonds which is allocable to Appraised Developed Property. For this purpose, there will be allocated to the Appraised Developed Property the largest principal amount of Outstanding Bonds and Parity Bonds that results in the maximum Special Taxes that may be levied on Appraised Developed Property (not including any parcels of Appraised Developed Property with delinquent Special Taxes and assuming taxation as

"Developed Property" under the Rate and Method) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Outstanding Bonds and Parity Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Appraised Developed Property for such Fiscal Year of taxation. Administrative Expenses in each Fiscal Year will be deemed to be equal to the Administrative Expense Requirement and the portion of the total Administrative Expenses allocable to Appraised Developed Property will be the same portion that Special Taxes on Appraised Developed Property represent of the total Special Taxes levied in the Community Facilities District in the then current Fiscal Year, plus

- (ii) the principal amount of any fixed assessment liens on Appraised Developed Property in the Community Facilities District, plus
- (iii) the proportionate share of the outstanding principal amount of all other special tax bonds payable at least partially from special taxes to be levied on Appraised Developed Property in the Community Facilities District ("Overlapping Bonds"), determined by multiplying the outstanding principal amount of those Overlapping Bonds by the following fraction: the amount of special taxes securing the Overlapping Bonds levied on Appraised Developed Property in the Community Facilities District, divided by the total amount of special taxes securing those Overlapping Bonds (in each case to be determined based upon the actual special taxes that are levied in the current Fiscal Year).

The term "Appraised Developed Property Value" for purposes of the foregoing means the value (including both land and improvements) of all parcels of Appraised Developed Property that are not known by the Community Facilities District to be delinquent in the payment of any Special Taxes, assessments or *ad valorem* property taxes then due and owing. Appraised Developed Property Value will be determined by reference to either or some combination of: (i) an appraisal prepared by an MAI appraiser selected by the Community Facilities District, with a date of value no earlier than 90 days before the date the proposed Parity Bonds would be issued ("date of valuation"), or (ii) the assessed values shown on the last equalized County assessor's property tax rolls as of the valuation date.

See APPENDIX D – "Summary of Certain Provisions of the Fiscal Agent Agreement."

Limitation on Modification of Maximum Authorized Special Tax

The Community Facilities District covenants in the Fiscal Agent Agreement that no modification of the maximum authorized Special Taxes in the Community Facilities District will be approved by the Community Facilities District prior to the issuance of all Parity Bonds and payment in full of the Incremental Payment Obligation and thereafter only if it is confirmed in writing, by an independent financial consultant, that, immediately subsequent to such modifications, the amount of the maximum Special Taxes on Developed Property pursuant to the Act and the applicable resolutions and ordinances of the Community Facilities District is at least 1.10 times Maximum Annual Debt Service plus Administrative Expenses on all Outstanding 2016 Bonds and Parity Bonds.

Special Taxes Are Within Teeter Plan

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. By policy, the County does include special taxes of a community facilities district in its Teeter program.

THE COMMUNITY FACILITIES DISTRICT

General Information

The Community Facilities District is located at the east end of the City, approximately 1-1/2 miles south of Ortega Highway, and west of La Pata Avenue. To the northeast of the Community Facilities District is the La Pata Green Waste Facility. San Juan Hills High School is located on the northern border of the Community Facilities District (the property in the Community Facilities District and the High School share the same entrance roadway) on Vista Montana. In general, undeveloped land surrounds the Community Facilities District on the other three sides.

The Community Facilities District was first established in 2005, and territory was added to the Community Facilities District in 2007. The Community Facilities District is essentially built out. As of July 30, 2016, all 140 homes anticipated to be built within the Community Facilities District have been completed, and the Developer has indicated that of the 5 homes still owned by the Developer, 2 are production homes and 3 are model homes. The Developer anticipates sales and closing of the 5 remaining homes to individual homeowners by the end of September 2016. An owner of one home prepaid its special tax obligation in December 2013, leaving 139 homes subject to the levy of Special Taxes. In addition, there are 15 custom lots within the Community Facilities District but the Community Facilities District has been advised by the Developer that such custom lots are currently not feasible to develop. The Developer currently believes that the costs of grading the lots and constructing the public infrastructure required to provide access and sewer, water and utility service to the lots makes their development and sale infeasible at this time. Bondowners should assume that no Special Taxes as either Developed Property or Undeveloped Property will be received with respect to such custom lots. For that reason, the custom lots are not anticipated to make debt service on the Bonds. See "THE COMMUNITY FACILITIES DISTRICT – Authority for Issuance" for additional information regarding the proceedings of the Legislative Body with respect to the Community Facilities District. The Community Facilities District includes a neighborhood park.

In 2005, in connection with the prospective development of the land in the Community Facilities District, Whispering Hills, LLC, the Developer's predecessor in interest as owner of the land in the Community Facilities District, and the School District entered into an Impact Mitigation Agreement Related to Proposed Community Facilities District No. 2005-1, dated as of July 1, 2005. The Developer's predecessor in interest and the School District had previously entered into a Reimbursement Agreement, dated January 23, 2002, and a Purchase and Sale Agreement and Escrow Agreement Instruction, dated April 28, 2003 (the "School Site Purchase Agreement") (collectively, the "Initial Agreements"). The Community Facilities District was formed by the Legislative Body pursuant to the Act and the Initial Agreements in order to finance the purchase of land by the School District (on which the San Juan Hills High School was subsequently constructed) from Whispering Hills, LLC, to finance facilities for the School District and to finance certain public improvements for the City. In 2007, the Legislative Body conducted proceedings to add certain territory to the Community Facilities District.

Certain disputes arose between Whispering Hills, LLC and the School District regarding the interpretation of provisions of the Initial Agreements, and in order to settle certain litigation filed by Whispering Hills, LLC in connection with such disputes, the School District, the Developer and Whispering Hills, LLC entered into a Settlement Agreement and General Releases, dated as of June 13, 2011 (the "Settlement Agreement"). In furtherance of the provisions of the Settlement Agreement, (i) the School District, the Community Facilities District, Whispering Hills, LLC and the Developer entered into a First Amended Impact Mitigation Agreement Related to the Whispering Hills Project and Community Facilities District No. 2005-1, dated June 13, 2011 (as amended by an Amendment No. 1 thereto, dated September 25, 2013, the "Mitigation Agreement"), (ii) the City, the School District, the Community Facilities District, the Developer and Whispering Hills, LLC entered into a First Amended and Restated Joint Community Facilities Agreement, dated June 13, 2011 (the "Joint Community Facilities Agreement"), and (iii) the Legislative Body conducted proceedings to approve the First Amended Rate and Method. The Mitigation Agreement and the Joint Community Facilities Agreement supersede in their entirety the Initial Agreements, other than the School Site Purchase Agreement. See "THE FINANCING PLAN" herein.

The Community Facilities District consists of approximately 279 gross acres of land located in the City in the southeasterly portion of Orange County, including approximately 60 acres developed with single family detached homes. The Community Facilities District contains 139 completed taxable single family homes as described herein.

The following entities provide public utility service to the parcels in the District:

Electricity: San Diego Gas & Electric

Water: San Juan Capistrano Water Department

Gas: San Diego Gas & Electric

Sewer: South Orange County Wastewater Authority

Telephone: AT&T

Police: Orange County Sheriff's Department Fire: Orange County Fire Department

Authority for Issuance

Resolution of Intention. Pursuant to the Act, the Legislative Body adopted resolutions on April 25, 2005, expressing its intention to form the Community Facilities District and to incur bonded indebtedness of the Community Facilities District and to authorize the levy of a special tax therein pursuant to a rate and method of apportionment of Special Tax.

Resolution of Formation: Immediately following a noticed public hearing on July 26, 2005, the Board of Trustees adopted Resolution No. 0506-06 (the "Resolution of Formation"), which approved the financing of the authorized School District facilities and City facilities and approved the original rate and method of apportionment and authorized the levy of the Special Taxes pursuant to the rate and method of appointment, subject to the approval of such levy by the qualified voters and the Board of Trustees adopted Resolution No. 0506-07 authorizing the Community Facilities District to issue bonded indebtedness in an amount not greater than \$30,000,000 secured by Special Taxes to finance authorized public facilities.

Landowner Election and Declaration of Results: On July 26, 2005, at a special election held pursuant to the Act, the then owner of the land in the Community Facilities District voted to authorize the Community Facilities District to incur up to \$30,000,000 principal amount of special tax bonds for the purpose of financing school facilities and public improvements for the City (the "2005 Authorization"), and approved the levy of special taxes on certain real property in the Community Facilities District (the

"Special Taxes") pursuant to the Rate and Method of Apportionment of Special Taxes for the Capistrano Unified School District Community Facilities District No. 2005-1 (Whispering Hills) (the "Original Rate and Method").

On July 26, 2005, the Board adopted Resolution No. 0506-08 pursuant to which the Board approved the canvass of the votes.

Special Tax Lien and Levy: A Notice of Special Tax Lien was recorded in the real property records of Orange County on August 8, 2005, as Document No. 2005-000615755 (the "Original Notice of Special Tax Lien").

Ordinance Levying Special Taxes: On August 8, 2005, the Board adopted Ordinance No. 2005-1-1 levying the Special Tax within the Community Facilities District.

Annexation. In 2007, proceedings were conducted by the Legislative Body to annex certain additional territory to the Community Facilities District.

Change Proceedings. In 2011, the Legislative Body conducted proceedings with respect to the modification of the Original Rate and Method in connection with the settlement of a lawsuit with the owner of the property in the Community Facilities District. On June 13, 2011, at a special election held pursuant to the Act, the then qualified voter of the Community Facilities District approved a First Amended Rate and Method of Apportionment for Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) (the "First Amended Rate and Method"). An amendment to the Notice of Special Tax Lien recorded on June 23, 2011, as Document No. 2011000306922. On July 11, 2011, the Legislative Body adopted Ordinance No. 1112-1 providing for the levy of the Special Taxes within the Community Facilities District.

Resolution of Issuance. The 2016 Bonds are now being issued pursuant to Resolution No. 1617-13, adopted by the Legislative Body on July 20, 2016 (the "Resolution"), and the Fiscal Agent Agreement.

Appraised Property Value

The Appraisal Report. The purpose of the Appraisal Report was to estimate the value of the fee simple interest of the property in the Community Facilities District subject to the Special Tax lien as of a June 1, 2016 date of value.

The Appraisal Report was intended to comply with the reporting requirements set forth under the Uniform Standards of Professional Appraisal Practice for an Appraisal Report and with the appraisal standard proposed by the California Debt and Investment Advisory Commission.

Basis for Appraisal Report and Assumptions. The property rights appraised were of a fee simple interest subject to easements of record and the lien of the Special Taxes.

The Appraisal Report was based on certain assumptions and limiting conditions set forth in APPENDIX C, including the assumption that, of the net proceeds of the Bonds, all improvements and benefits to the properties which are to be funded by the Bond proceeds are completed and in place. See "THE FINANCING PLAN" and Property Value" and "APPENDIX C – Appraisal Report."

Value Estimate. The purpose of the Appraisal Report was to estimate the value of the fee simple interest in the property in the Community Facilities District, subject to the Special Tax lien, as of a June 1, 2016, date of value. Subject to the assumptions contained in the Appraisal Report, the Appraiser estimated that the property within the Community Facilities District, subject to the lien of the Special Taxes and overlapping liens, had an estimated value as follows:

	No. of	
Ownership	Lots/Units ²	Appraised Value
Individually Owned Homes Minimum Market Value	131	\$153,105,000
Rancho San Juan Development LLC Ownership	8	8,827,000
Total	139	\$154,161,000

Valuation Method. The Appraiser estimated the value of the property in the Community Facilities District pursuant to a mass appraisal technique as defined within the Appraisal Report. A sales comparison, cost or income approach were not utilized.

The School District, the Underwriter and the Community Facilities District make no representation as to the accuracy or completeness of the Appraisal Report. See APPENDIX C for the Appraisal Report.

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² There are 15 custom lots within the Community Facilities District. The Appraisal Report also indicates the assessed value of the 15 custom lots. The Community Facilities District has been advised by the Developer that such custom lots are currently not feasible to develop. Bondowners should assume that no Special Taxes as either Developed Property or Undeveloped Property will be received with respect to such custom lots. For that reason, the custom lots are not anticipated to make debt service on the Bonds.

Special Tax Collections

The Special Tax on Developed Property authorized for the 2015-16 Fiscal Year was \$926,285, which was levied against 139 parcels. For the 2015-16 Fiscal Year, there were no delinquent parcels as of August 17, 2016.

Table 4 below sets forth the Special Tax collections for Fiscal Years 2012-13 through 2015-16, all of which was levied on Developed Property.

Table 4
Community Facilities District No. 2005-1 (Whispering Hills)
of the Capistrano Unified School District

Special Tax Delinquency History (1)

Fiscal Year	Total Tax Levy	No. of Parcels Levied	No. of Delinquent Parcels at Fiscal Year End ⁽²⁾	Fiscal Year Amount Delinquent ⁽²⁾	Fiscal Year Delinquency Rate (2)	Amount Collected as of 8/17/2016 ⁽³⁾	Remaining Delinquency as of 8/17/2016 (3)	Remaining Delinquency Rate as of 8/17/2016 (3)
2012-13	\$21,142	3	0	\$0	0.00%	\$21,142	\$0	0.00%
2013-14	455,512	64	1	7,263	1.59	455,512	0	0.00
2014-15	630,128	84	2	11,461	1.82	630,128	0	0.00
2015-16	926,285	117	2	8,268	0.89	926,285	0	0.00

⁽¹⁾ School District is a participant in the County's Teeter Plan.

Source: David Taussig & Associates, Inc.

Value-to-Lien Ratios

Appraised Value-to-Lien Ratio

Tables 5A and 5B below show the estimated value-to-lien stratification for the Developed Property in the Community Facilities District and the ratio by property ownership for the Developed Property in the Community Facilities District based on the estimated market values set forth in the Appraisal Report and the principal amount of the Bonds, which has been allocated based on the projected Special Tax levy on all 139 homes.

No assurance can be given that the amounts shown in these tables will conform to those ultimately realized in the event of a foreclosure action following delinquency in the payment of the Special Taxes.

As of approximately June 30 of the fiscal year in which special taxes were levied.

Delinquency data as of August 17, 2016, provided by the Orange County Tax Collector.

Table 5A

Community Facilities District No. 2005-1 (Whispering Hills)
of the Capistrano Unified School District

Estimated Appraised Value-to-Lien Analysis of Developed Property by Range (Does Not Include Undeveloped Property)

Value-to-Lien Range	No. of Parcels Taxed	Estimated FY 2016-17 CUSD CFD No. 2005-1 Levy ⁽¹⁾	Percentage of Estimated FY 2016-17 Levy	CUSD CFD No. 2005-1 Bonds Outstanding (2)	City of San Juan Capistrano GO Bonds, Series 1998 Outstanding ⁽³⁾	City of San Juan Capistrano GO Bonds, Series 2009 Outstanding (3)	CUSD SFID No. 1, Series B Bonds Outstanding	CUSD SFID No. 1, Series 2012 Bonds Outstanding	MWD Bonds Outstanding ⁽³⁾	Total Direct and Overlapping Debt	Appraised Value of Developed Property ⁽⁴⁾	Estimated Appraised Value-to-Lien Ratios
0.00-4.99	0	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	NA
5.00-9.99	139	1,138,070	100.00	20,675,000	13,789	390,027	18,419	38,514	2,993	21,138,742	161,932,000	7.66 to 1
10.00 or Greater	0	0	0.00	0	0	0	0	0	0	0	0	NA
Grand Total	139 (5)(6)	\$1,138,070	100.00%	\$20,675,000	\$13,789	\$390,027	\$18,419	\$38,514	\$2,993	\$21,138,742	\$161,932,000	7.66 to 1

⁽¹⁾ Includes property for which a building permit was issued as of January 1, 2016. Based on estimated Fiscal Year 2016-17 levy for the School District.

Source: David Taussig & Associates, Inc.

Allocated based on share of estimated Fiscal Year 2016-17 levy.

⁽³⁾ As of March 2, 2016. Allocated based on Fiscal Year 2015-16 levy.

Based on Appraisal Report dated June 15, 2016.

⁵ homes were still owned by Rancho San Juan Development, LLC as of July 30, 2016.

⁽⁶⁾ Does not include one unit which prepaid its special tax obligation in December 2013 and will not be levied.

Table 5B

Community Facilities District No. 2005-1 (Whispering Hills)
of the Capistrano Unified School District

Estimated Appraised Value-to-Lien Ratios

Property Classification / Owner ⁽¹⁾	Number of Units/ Lots	CUSD CFD No. 2005-1 Estimated Fiscal Year 2015-16 Levy	CUSD CFD No. 2005-1 Bonds Outstanding (2)	City of San Juan Capistrano GO Bonds, Series 1998 Outstanding (3)	City of San Juan Capistrano GO Bonds, Series 2009 Outstanding ⁽³⁾	CUSD SFID No. 1, Series B Bonds Outstanding ⁽³⁾	CUSD SFID No. 1, Series 2012 Bonds Outstanding (3)	MWD GO Bonds Outstanding ⁽³⁾	Total Direct and Overlapping Debt	Appraised Value of Developed Property ⁽⁴⁾	Estimated Appraised Value-to- Lien Ratio
Developed Property (5)											
Residential Property											
Individual Owner	131 Units	\$1,066,336	\$19,371,822	\$13,302	\$376,233	\$17,768	\$37,151	\$2,887	\$19,819,163	\$153,105,000	7.73
Rancho San Juan Development, LLC	8 Units	71,734	1,303,178	488	_13,795	651	1,362	106	1,319,580	8,827,000	<u>6.69</u>
Subtotal	139 Units (7)	\$1,138,070	\$20,675,000	\$13,790	\$390,027	\$18,419	\$38,514	\$2,993	\$21,138,742	\$161,932,000	7.66
Undeveloped Property (6)											
Custom Lots	15 Lots	\$0	\$0	\$151	\$4,267	\$201	\$422	\$33	\$5,074	\$1,056,000	N/A
GRAND TOTAL	NA	\$1,138,070	\$20,675,000	\$13,940	\$394,295	\$18,620	\$38,935	\$3,026	\$21,143,817	\$162,988,000	7.71

⁽¹⁾ Reflects ownership as indicated in Appraisal dated June 15, 2016.

Source: David Taussig & Associates, Inc.

⁽²⁾ Allocated based on share of estimated Fiscal Year 2016-17 levy.

⁽³⁾ As of March 2, 2016. Allocated based on Fiscal Year 2015-16 levy.

⁽⁴⁾ Based on Appraisal dated June 15, 2016.

⁽⁵⁾ Property for which a building permit was issued prior to January 1, 2016.

Property for which escrow had not yet closed to an individual or a building permit had not yet been issued as of January 1, 2016. There are 15 custom lots within the Community Facilities District but the Community Facilities District has been advised by the Developer that such custom lots are currently not feasible to develop. Bondowners should assume that no Special Taxes as either Developed Property or Undeveloped Property will be received with respect to such custom lots. For that reason, the custom lots are not anticipated to make debt service on the Bonds.

Does not include one unit which prepaid its special tax obligation in December 2013 and will not be levied.

Assessed Value History

Table 6 below summarizes the assessed values as of January 1 for the years indicated below. All building permits were issued by August 6, 2015, and 124 homes had been completed as of January 1, 2016. Construction of the remaining 16 homes was completed in May, 2016.

Table 6
Community Facilities District No. 2005-1 (Whispering Hills)
of the Capistrano Unified School District

Summary of Assessed Values (1)

As of January 1	No. of Developed Units ⁽²⁾	Developed Property Assessed Value (3)	Undeveloped Property Assessed Value (4)	Developed and Undeveloped Property Assessed Value	Percent Change
2012	3	\$940,081	\$7,543,801	\$8,483,882	NA
2013	64	27,798,120	4,727,683	32,525,803	283.38%
2014	84	61,612,331	3,722,945	65,335,276	100.87
2015	117	95,702,422	2,152,623	97,855,045	49.77
2016	139	134,640,177	1,072,260	135,712,437	38.69

Total

(1) Reflects value for taxable property only.

Source: County of Orange; David Taussig & Associates, Inc.

Based on the County's Fiscal Year 2016-17 assessor's roll, the aggregate assessed value of the Developed Property within the Community Facilities District was \$134,640,177. The Fiscal Year 2016-17 Special Tax levy anticipated to be billed to the properties within the Community Facilities District is estimated to be \$1,138,070. Set forth in Table 3 above in "SECURITY FOR THE 2016 BONDS – Special Tax Levy" is a summary of the projected Fiscal Year 2016-17 Special Tax levy by tax classes.

⁽²⁾ Based on property for which a building permit has been issued as of January 1 of each year. Does not include one unit which prepaid its special tax obligation in December 2013 and will not be levied.

⁽³⁾ Based on land and improvement values as of January 1 provided by the Orange County Assessor for property for which a building permit has been issued as of January 1 of each year.

⁽⁴⁾ Based on land values as of January 1 provided by the Orange County Assessor for property for which a building permit has not been issued as of January 1 of each year.

Top Taxpayers

The Developer has completed construction of all of the homes and is marketing the remaining unsold homes. Table 7 below sets forth percent of Special Tax levy of the individual owners and the Developer in Fiscal Year 2016-17, which is subject to change assuming the Developer sells the remaining homes.

Table 7

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Estimated Fiscal Year 2016-17 Top Taxpayers

Owner (1)	Parcels Taxed	Land Use	Estimated Fiscal Year 2016-17 Special Tax Levy ⁽²⁾	Percent of Total Levy	
Individual Owners	131	Residential	\$1,066,336	93.70%	
Rancho San Juan Development, LLC	8	Residential	71,734	6.30	
Total	139 (3)	NA	\$1,138,070	100.00%	

⁽¹⁾ Reflects ownership as indicated in Appraisal dated June 15, 2016.

Based on building permits issued as of January 1, 2016.

Source: David Taussig & Associates, Inc.

⁽³⁾ Does not include one unit which prepaid its special tax obligation in December 2013 and will not be levied.

Direct and Overlapping Debt

Table 8 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District, prepared by David Taussig & Associates, Inc., and prepared April 4, 2016 (the "Debt Report"). The Debt Report is included for general information purposes only. 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 Community Facilities District believes the information is current as of its date, but makes no representation as to its completeness or accuracy. Other public agencies, such as the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District. See " – Overlapping Direct Assessments" below.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. Such long term obligations are those payable from property taxes or special taxes on land in the Community Facilities District. There may be other long term obligations which are not payable directly from property taxes, assessment or special taxes on land in the Community Facilities District but which may be issued by a public agency and payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the Community Facilities District, the School District, the County or other public agencies at any time. For example, at its meeting on August 10, 2016, the School District Board is considering whether to form a school facilities improvement district whose boundaries would include all of the territory of the School District (including the territory within the Community Facilities District), except the territory within the Rancho Mission Viejo community which is planned for approximately 14,000 new homes. If the School District Board determines to form the school facilities improvement district, it will also consider whether to order a school bond election on November 8, 2016 to authorize the issuance of \$889,000,000 general obligation bonds with respect to such school facilities improvement district. If the measure is approved and general obligation bonds are issued, the general obligation bonds would be payable from an ad valorem tax levied on the property within the school facilities improvement district.

The Community Facilities District has not undertaken to commission annual appraisals of the market value of property in the Community Facilities District for purposes of its Annual Reports pursuant to the Continuing Disclosure Certificate, and information regarding property values for purposes of a direct and overlapping debt analysis which may be contained in such reports will be based on assessed values as determined by the County Assessor. See APPENDIX E hereto for the form of the Continuing Disclosure Certificate.

Table 8 **Community Facilities District No. 2005-1 (Whispering Hills)** of the Capistrano Unified School District

Detailed Direct and Overlapping Debt as of April 4, 2016

Overlapping District	Actual Fiscal Year 2015-16 Total Levy	Amount of Levy on Parcels in District (1)	Percent of Levy on Parcels in District	Total Debt Outstanding ⁽²⁾	District Share of Total Debt Outstanding
City of San Juan Capistrano Election 1990, Series 1998 GO Bonds	\$239,342	\$3,494	1.4597%	\$955,000	\$13,940
City of San Juan Capistrano Election 2008, Series 2009 GO Bonds	2,138,038	31,211	1.4598	27,010,000	394,295
Capistrano Unified School District SFID No. 1 Series B	2,254,872	4,343	0.1926	9,667,521	18,620
Capistrano Unified School District SFID No. 1 2012 Refunding	2,026,850	3,904	0.1926	20,215,000	38,935
Metropolitan Water District G.O. Bonds	104,828,829	3,416	0.0033	92,865,000	3,026
		Estin		rlapping Debt Allocable munity Facilities District	\$468,817
			Plu	as the Series 2013 Bonds	\$8,100,000
				Plus the 2016 Bonds	12,575,000
		Estimated Share		erlapping Debt Allocable munity Facilities District	\$21,143,817

Based on School District's share of total levy for Fiscal Year 2015-16. Based on outstanding principal as of March 2, 2016.

Source: David Taussig & Associates, Inc.

Tables 9A through 9G below set forth Fiscal Year 2015-16 overall tax rates estimated to be applicable to a Detached Unit within each of the various Tax Classes.

Table 9A

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 2 (>4,600 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$1,305,757				
NET ASSESSED VALUE (1)	\$1,298,757				
Unit Size for Residential Property (2)	5,040	Square Feet			
Lot Size for Residential Property (3)	14,168	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$12,987.57	
Metropolitan Water District G.O. Bonds			0.00350	45.46	
City of San Juan Capistrano Series 1990 Bonds			0.00358	46.50	
City of San Juan Capistrano Series 2008 Bonds			0.03198	415.34	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	57.79	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	51.95	
Total General Property Taxes and Overrides			1.04751%	\$13,604.61	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)				9,500.62	<u>\$9,500.62</u>
Total Assessments and Parcel Charges				\$9,518.64	\$9,518.64
PROJECTED TOTAL PROPERTY TAXES				<u>\$23,123.25</u>	<u>\$23,123.25</u>
Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.77087%	1.77087%

⁽¹⁾ Based on average assessed value for 4 Tax Class 2 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.

- (2) Based on the average unit size for 4 Tax Class 2 residential units.
- (3) Based on the average lot size for 4 Tax Class 2 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.

Expected amount based on the Fiscal Year 2016-17 Assigned Special Tax levy of \$9,500.62 per unit for Tax Class 2 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Table 9B

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 3 (4,301-4,600 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$1,226,333				
NET ASSESSED VALUE (1)	\$1,219,333				
Unit Size for Residential Property (2)	4,329	Square Feet			
Lot Size for Residential Property (3)	12,531	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$12,193.33	
Metropolitan Water District G.O. Bonds			0.00350	42.68	
City of San Juan Capistrano Series 1990 Bonds			0.00358	43.65	
City of San Juan Capistrano Series 2008 Bonds			0.03198	389.94	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	54.26	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	48.77	
Total General Property Taxes and Overrides			1.04751%	\$12,772.64	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)			_	8,672.55	<u>\$8,672.55</u>
Total Assessments and Parcel Charges				\$8,690.57	\$8,690.57
PROJECTED TOTAL PROPERTY TAXES				<u>\$21,463.21</u>	<u>\$21,463.21</u>
- Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.75019%	1.75019%

- (1) Based on average assessed value for 3 Tax Class 3 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 3 Tax Class 3 residential units.
- (3) Based on the average lot size for 3 Tax Class 3 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Expected amount based on the Fiscal Year 2016-17 Assigned Special Tax levy of \$8,672.55 per unit for Tax Class 3 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Table 9C

Community Facilities District No. 2005-1(Whispering Hills) of the Capistrano Unified School District

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 4 (3,901-4,300 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$1,105,914				
NET ASSESSED VALUE (1)	\$1,098,914				
Unit Size for Residential Property (2)	4,035	Square Feet			
Lot Size for Residential Property (3)	15,083	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$10,989.14	
Metropolitan Water District G.O. Bonds			0.00350	38.46	
City of San Juan Capistrano Series 1990 Bonds			0.00358	39.34	
City of San Juan Capistrano Series 2008 Bonds			0.03198	351.43	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	48.90	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	43.96	
Total General Property Taxes and Overrides			1.04751%	\$11,511.23	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)				8,432.97	\$8,432.97
Total Assessments and Parcel Charges				\$8,450.99	\$8,450.99
PROJECTED TOTAL PROPERTY TAXES				<u>\$19,962.22</u>	<u>\$19,962.22</u>
Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.80504%	1.80504%

- (1) Based on average assessed value for 4 Tax Class 4 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 4 Tax Class 4 residential units.
- (3) Based on the average lot size for 4 Tax Class 4 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Expected amount based on the Fiscal Year 2016-17 Assigned Special Tax levy of \$8,432.97 per unit for Tax Class 4 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Table 9D

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 5 (3,701-3,900 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$969,612				
NET ASSESSED VALUE (1)	\$962,612				
Unit Size for Residential Property (2)	3,842	Square Feet			
Lot Size for Residential Property (3)	15,176	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$9,626.12	
Metropolitan Water District G.O. Bonds			0.00350	33.69	
City of San Juan Capistrano Series 1990 Bonds			0.00358	34.46	
City of San Juan Capistrano Series 2008 Bonds			0.03198	307.84	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	42.84	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	38.50	
Total General Property Taxes and Overrides			1.04751%	\$10,083.46	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)				7,844.49	\$8,264.25
Total Assessments and Parcel Charges				\$7,862.51	\$8,282.27
PROJECTED TOTAL PROPERTY TAXES				<u>\$17,945.97</u>	<u>\$18,365.73</u>
Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.85084%	1.89413%

- (1) Based on average assessed value for 23 Tax Class 5 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 23 Tax Class 5 residential units.
- (3) Based on the average lot size for 23 Tax Class 5 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Expected amount based on the Fiscal Year 2016-17 Assigned Special Tax levy of \$7,844.49 per unit for Tax Class 5 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Table 9E

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 6 (3,401-3,700 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$958,207				
NET ASSESSED VALUE (1)	\$951,207				
Unit Size for Residential Property (2)	3,588	Square Feet			
Lot Size for Residential Property (3)	18,267	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$9,512.07	
Metropolitan Water District G.O. Bonds			0.00350	33.29	
City of San Juan Capistrano Series 1990 Bonds			0.00358	34.05	
City of San Juan Capistrano Series 2008 Bonds			0.03198	304.20	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	42.33	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	38.05	
Total General Property Taxes and Overrides			1.04751%	\$9,963.99	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)				7,707.59	<u>\$9,947.71</u>
Total Assessments and Parcel Charges				\$7,725.61	\$9,965.73
PROJECTED TOTAL PROPERTY TAXES				<u>\$17,689.60</u>	\$19,929.73
- Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.84611%	2.07990%

- (1) Based on average assessed value for 25 Tax Class 6 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 25 Tax Class 6 residential units.
- (3) Based on the average lot size for 25 Tax Class 6 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Expected amount based on the Fiscal Year 2016-17 Assigned Special Tax levy of \$7,707.59 per unit for Tax Class 6 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Table 9F

Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 7 (2,901-3,400 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$917,049				
NET ASSESSED VALUE (1)	\$910,049				
Unit Size for Residential Property (2)	3,321	Square Feet			
Lot Size for Residential Property (3)	12,458	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$9,100.49	
Metropolitan Water District G.O. Bonds			0.00350	31.85	
City of San Juan Capistrano Series 1990 Bonds			0.00358	32.58	
City of San Juan Capistrano Series 2008 Bonds			0.03198	291.03	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	40.50	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	36.40	
Total General Property Taxes and Overrides			1.04751%	\$9,532.85	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)				7,332.20	\$7,332.20
Total Assessments and Parcel Charges				\$7,350.22	\$7,350.22
PROJECTED TOTAL PROPERTY TAXES				<u>\$16,883.07</u>	<u>\$16,883.07</u>
- Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.84102%	1.84102%

- (1) Based on average assessed value for 11 Tax Class 7 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 11 Tax Class 7 residential units.
- (3) Based on the average lot size for 11 Tax Class 7 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Expected amount based on the Fiscal Year 2016-17 Assigned Special Tax levy of \$7,332.20 per unit for Tax Class 7 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Table 9G

Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills)

Fiscal Year 2015-16 Tax Rates Residential Property Tax Class 8 (≤2,900 Square Feet)

Assessed Value and Property Taxes			Percent of Net AV	Expected Amount	Maximum Amount
TOTAL ASSESSED VALUE (1)	\$713,448				
NET ASSESSED VALUE (1)	\$706,448				
Unit Size for Residential Property (2)	2,804	Square Feet			
Lot Size for Residential Property (3)	12,510	Square Feet			
AD VALOREM PROPERTY TAXES (4)					
Basic Levy			1.00000%	\$7,064.48	
Metropolitan Water District G.O. Bonds			0.00350	24.73	
City of San Juan Capistrano Series 1990 Bonds			0.00358	25.29	
City of San Juan Capistrano Series 2008 Bonds			0.03198	225.92	
Capistrano Unified SFID No. 1 Series 2001B			0.00445	31.44	
Capistrano Unified SFID No. 1 Series 2012 Refunding			0.00400	28.26	
Total General Property Taxes and Overrides			1.04751%	\$7,400.12	
ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES					
Mosquito & Fire Ant Assessment (5)				\$6.02	
Vector Control Charge (6)				1.92	
Metropolitan Water District West Standby Charge (7)				10.08	
Capistrano Unified School District CFD No. 2005-1 (8)			_	6,819.91	<u>\$6,819.91</u>
Total Assessments and Parcel Charges				\$6,837.93	\$6,837.93
PROJECTED TOTAL PROPERTY TAXES				<u>\$14,238.05</u>	<u>\$14,238.05</u>
- Projected Total Effective Tax Rate (as % of Total Assessed Value)				1.99567%	1.99567%

- (1) Based on average assessed value for 10 Tax Class 8 residential units sold to individuals as of January 1, 2015, provided by the Orange County Assessor. Net Assessed Value includes \$7,000 homeowner's exemption. Total Assessed Value used to determine the Total Effective Tax Rate.
- (2) Based on the average unit size for 10 Tax Class 8 residential units.
- (3) Based on the average lot size for 10 Tax Class 8 residential units.
- (4) Estimated based on actual Fiscal Year 2015-16 ad valorem rates.
- (5) Estimated based on actual Fiscal Year 2015-16 rate of \$6.02 per benefit unit. Residential units are assessed at 1 benefit unit.
- (6) Estimated based on actual Fiscal Year 2015-16 rate of \$1.92 per benefit unit. Residential units are assessed at 1 benefit unit.
- (7) Estimated based on actual Fiscal Year 2015-16 rate of \$10.08 per parcel or per acre, whichever is greater.
- (8) Expected amount based on the Assigned Fiscal Year 2016-17 Special Tax levy of \$6,819.91 per unit for Tax Class 8 property. Maximum amount based on the greater of Fiscal Year 2016-17 Assigned Special Tax or the Fiscal Year 2016-17 Backup Special Tax, where the Fiscal Year 2016-17 Backup Special Tax rate is \$23,721.18 per lot acre. The Assigned and Backup Special Tax rates escalate at two percent per year.

Overlapping Direct Assessments

As indicated in the tables above, properties within the Community Facilities District are subject to a variety of standby charges, direct assessments, maintenance assessments, special assessments and service charges. Most of these charges are in amounts less than \$400 per annum. Other than the Special Taxes levied with respect to the 2016 Bonds, the Community Facilities District is not aware of whether the properties within the Community Facilities District are subject to sewer service charges or special taxes in excess of \$420 per year.

The Community Facilities District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County or any other governmental agency having jurisdiction over all or a portion of the property within the Community Facilities District.

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2016 Bonds are issued between the value of the property and the debt secured by other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay Special Taxes when due.

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of the property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See "BONDOWNERS' RISKS – Assessed Values."

BONDOWNERS' RISKS

In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the 2016 Bonds. The Community Facilities District and the Underwriter caution prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2016 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the 2016 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.

Risks of Real Estate Secured Investments Generally

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

Economic Uncertainty

In recent years, there have been local economic uncertainty and volatility within the region. Unemployment rates as of April 2016 have decreased to approximately 4.3% for the City of San Juan Capistrano (not seasonally adjusted) as compared to 4.5% for calendar year 2015, and approximately 3.9% (not seasonally adjusted) for Orange County as compared to 4.2% for calendar year 2015. The Community Facilities District cannot predict future economic conditions or whether or to what extent economic conditions may affect the ability of homeowners to pay Special Taxes or the marketability of the 2016 Bonds.

State Budget

As a result of the slow State and national economies, the State in recent years experienced serious budgetary shortfalls. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the Community Facilities District cannot be predicted.

Special Taxes Are Not Personal Obligations

The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2016 Bonds have been issued.

The 2016 Bonds Are Limited Obligations of the Community Facilities District

The Community Facilities District has no obligation to pay principal of and interest on the 2016 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Special Tax Fund, Bond Fund, Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2016 Bonds.

Neither the faith and credit nor the taxing power of the School District, the State or any political subdivision thereof other than the Community Facilities District is pledged to the payment of the 2016 Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the 2016 Bonds. The 2016 Bonds are not general or special obligations of the School District, the State or any political subdivision thereof nor general obligations of the Community Facilities District, but are special obligations of the Community Facilities District, payable solely from Net Special Taxes and the other assets pledged therefor under the Fiscal Agent Agreement.

Appraised Values

The Appraisal Report summarized in APPENDIX C estimates the market value of the Taxable Property within the Community Facilities District. This market value is merely the present opinion of the Appraiser as of the date of value set forth in the Appraisal Report, and is subject to the assumptions and limiting conditions stated in the Appraisal Report. The Community Facilities District has not sought the present opinion of any other appraiser of the value of the completed homes. A different opinion of value might be rendered by a different appraiser.

The opinion of value assumes a sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell or to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

In addition, the opinion is a present opinion. It is based upon the facts and circumstances at the date of value of the Appraisal Report. Differing facts and circumstances may lead to differing opinions of value. The appraised value is not evidence of future value because future facts and circumstances may differ significantly from such date of value.

No assurance can be given that any of the completed homes in the Community Facilities District could be sold for the estimated market value contained in the Appraisal Report if that property should become delinquent in the payment of Special Taxes and be foreclosed upon.

Assessed Values

Prospective purchasers of the 2016 Bonds should not assume that the land within the Community Facilities District could be sold for the assessed amount described in this Official Statement at a foreclosure sale for delinquent Special Taxes.

The assessed values summarized herein estimate the fee simple interest assessed value of the property within the Community Facilities District. This value is merely the amount of the assessed value in the records maintained by the County Assessor. The assessed value relates to sale by a willing seller to a willing buyer at a point in time, as adjusted by State law. Consequently, the assessed value is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

No assurance can be given that if any of the completed homes in the Community Facilities District should become delinquent in the payment of the Special Taxes, and be foreclosed upon, that such property could be sold for the assessed value. See "Value-to-Lien Ratios," below.

Finally, as noted above, there are 15 custom lots within the Community Facilities District but the Community Facilities District has been advised by the Developer that such custom lots are currently not feasible to develop. The Developer currently believes that the costs of grading the lots and constructing the public infrastructure required to provide access and sewer, water and utility service to the lots makes their development and sale infeasible at this time. Bondowners should assume that no Special Taxes as either Developed Property or Undeveloped Property will be received with respect to such custom lots and should not assume that if Special Taxes were levied on the custom lots, that such property could be sold for the assessed value.

Value-to-Lien Ratios

Value-to-lien ratios have traditionally been used in land-secured bond issues as a measure of the "collateral" supporting the willingness of property owners to pay their special taxes and assessments (and, in effect, their general property taxes as well). The value-to-lien ratio is mathematically a fraction, the numerator of which is the value of the property (usually either the assessed value or a market value as determined by an appraiser) and the denominator of which is the "lien" of the assessments or special taxes as represented by the principal amount of bonds repaid by such assessment or special tax. A value-to-lien ratio should not, however, be viewed as a guarantee of credit-worthiness. Land values are especially sensitive to economic cycles. A downturn of the economy may depress land values and hence the value-to-lien ratios. Further, the value-to-lien ratio typically cited for a bond issue

is an average. Individual parcels in a community facilities district may fall above or below the average, sometimes even below a 1:1 ratio. (With a 1:1 ratio, the land is worth less than the debt on it.) Although judicial foreclosure proceedings can be initiated rapidly, the process can take several years to complete, and the bankruptcy courts may impede the foreclosure action. Finally, local agencies may form overlapping community facilities districts or assessment districts. Such local agencies typically do not coordinate their bond issuances. Debt issuance by an entity other than the Community Facilities District can therefore dilute value-to-lien ratios. See "THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt."

Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property

While the Special Taxes are secured by the Taxable Property, the security only extends to the value of such Taxable Property that is not subject to priority and parity liens and similar claims.

Table 8 in the section entitled "THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt" sets forth the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property. The table does not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2016 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax 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 Special Taxes securing the 2016 Bonds, the Special Tax 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 Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to a hazardous substance. See "Factors Affecting Parcel Values and Aggregate Value – *Hazardous Substances*" below.

Disclosure to Future Purchasers

On June 23, 2011, the Community Facilities District recorded an amendment to the Notice of Special Tax Lien for the territory included in the Community Facilities District in the Office of the Orange County Recorder, as Document No. 20110003, with respect to the First Amended Rate and Method. 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 of land or a home in the Community Facilities District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a

subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers, other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

In order to pay debt service on the 2016 Bonds, it is necessary that the Special Taxes be paid in a timely manner. Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2016 Bonds are derived, are customarily billed to the properties within the Community Facilities District, as applicable, on the regular *ad valorem* property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular *ad valorem* property tax installments. The unwillingness or inability of a property owner to pay *ad valorem* property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. If a substantial number of homeowners fail to pay the Special Taxes when due there could be significant special tax delinquencies.

As indicated above, by policy, the County does include special taxes of the community facilities districts formed by the School District in its Teeter program. See "SECURITY FOR THE 2016 BONDS – Special Taxes Are Within Teeter Plan." So long as the Special Taxes are included within the Teeter Plan, the County will distribute Special Taxes to the Community Facilities District on the basis of the Special Tax levy, rather than on the basis of actual Special Tax collections.

Insufficiency of the Special Tax

The principal source of payment of principal of and interest on the 2016 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2016 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2016 Bonds, and certainly not a direct relationship.

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

- (1) Reduction in the amount of Taxable Property, for such reasons as acquisition of Taxable Property by a governmental agency and failure of the governmental agency to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.
- (2) Failure of the owners of Taxable Property to pay the Special Tax and delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

Except as set forth above under "SECURITY FOR THE 2016 BONDS – Special Taxes" and " – First Amended Rate and Method" herein, the Fiscal Agent Agreement provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County. In situations where the County has paid to the Community Facilities District the amount of the Special Tax levied on a parcel, all foreclosure proceeds, including penalties and interest, will be paid to the County. See "SECURITY FOR THE 2016 BONDS-Proceeds of Foreclosure Sales."

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2016 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Fund is depleted. See "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales."

In addition, the First Amended Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See "SECURITY FOR THE 2016 BONDS – First Amended Rate and Method" herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the First Amended Rate and Method (see "SECURITY FOR THE 2016 BONDS – First Amended Rate and Method" herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; *provided, however*, that property within the Community Facilities District acquired by a public entity subsequent to adoption of the Resolution of Formation through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Special Tax.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

Depletion of Reserve Fund

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see "SECURITY FOR THE 2016 BONDS – Reserve Fund" herein). Funds in the Reserve Fund may be used to pay principal of and interest on the 2016 Bonds, in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District are insufficient. If funds in the Reserve Fund are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondowners pursuant to the Fiscal Agent Agreement. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

Discontinuance of Advancement of the Special Tax

The County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the Community Facilities District, with full tax and assessment levies instead of actual tax and assessment collections. In return the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect Bondowners from the risk of delinquencies in the payment of special taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the Community Facilities District would eliminate such protection from delinquent Special Taxes for the Community Facilities District. See "SECURITY FOR THE 2016 BONDS – Special Taxes Are Within Teeter Plan."

Potential Delay and Limitations in Foreclosure Proceedings

The payment of property owners' taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales" and "BONDOWNERS' RISKS – Bankruptcy and Foreclosure Delay" herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest. See "BONDOWNERS' RISKS – Payments by FDIC, Fannie Mae, Freddie Mac and Other Federal Agencies" herein.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate

on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

The Community Facilities District and the School District are unable to predict what effect the application of a policy statement by the FDIC regarding payment of state and local real property taxes would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although 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.

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond the control of the Community Facilities District or the School District. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes may take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the "minimum bid amount" which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys' fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the Community Facilities District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such superior court approval requires the consent of the owners of 75% of the aggregate principal amount of the outstanding Bonds.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2016 Bonds. See "Special Taxes Are Not Personal Obligations" above.

If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (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, his 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. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the aggregate principal amount of the 2016 Bonds Outstanding.

No assurances can be given that the 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 Act does not require the School District or the Community Facilities District to purchase or otherwise acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as do *ad valorem* property taxes.

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the First Amended Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in the Community Facilities District in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2016 Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2016 Bonds by Fiscal Agent Agreement. The levy of Special Taxes is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District and the limitations imposed by Section 53321(d) of the Act and the First Amended Rate and Method pursuant to which the Special Tax levied against any Assessor's Parcels of Residential Property for which an occupancy permit for private residential use has been issued may not be increased by more than 10% as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District. See "SECURITY FOR THE 2016 BONDS – Special Tax Levy."

Bankruptcy and Foreclosure Delay

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled "SECURITY FOR THE 2016 BONDS" may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2016 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting superior court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2016 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in the Community Facilities District is owned any property owner, and Special Taxes have been levied on such property, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior

lien on the property. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor 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 at that time become subject to current *ad valorem* taxes.

The Act provides that the Special Taxes are secured by a continuing lien, which is subject to the same lien priority in the case of delinquency as *ad valorem* taxes. No case law exists with respect to how a bankruptcy court would treat the lien for the Special Taxes levied after the filing of a petition in bankruptcy. *Glasply* is controlling precedent for bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Tax, the amount of Special Tax received from parcels whose owners declare bankruptcy could be reduced.

It should also be noted that on October 22, 1994, Congress enacted 11 U.S. C. Section 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. Pursuant to this new provision of law, in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for *ad valorem* taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S. C. Section 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* taxes for this purpose.

Payments by FDIC, Fannie Mae, Freddie Mac and Other Federal Agencies

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the FDIC, Fannie Mae, Freddie Mac, the Federal National Mortgage Association, the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

FDIC. Specifically, with respect to the FDIC, on June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's

consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

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

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Owners of the 2016 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel within the Community Facilities District owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the 2016 Bonds. Based upon the secured tax roll as of January 1, 2015, the FDIC did not own any of the property in the Community Facilities District. The Community Facilities District expresses no view concerning the likelihood that the risks described above will materialize while the 2016 Bonds are outstanding.

Mortgage Interests. Similarly, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution ("This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding"), in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments. Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the Community Facilities District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. For a discussion of risks associated with taxable parcels within the Community Facilities District becoming owned by the federal government, federal government entities or federal government sponsored entities, see " Exempt Properties" above.

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Property in the Community Facilities District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Taxable Property and the continued habitability and enjoyment of such

private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

Seismic Conditions. The Community Facilities District is located in a seismically active region in Southern California. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the Community Facilities District. As a result, the property owners may be unable or unwilling to pay the Special Taxes when due, and the Reserve Fund may eventually become depleted. In addition, the value of land in the Community Facilities District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes. Development within the Community Facilities District has been built in accordance with applicable building codes, including requirements relating to seismic safety. No assurances can be given that any earthquake insurance will be obtained as to any of the improvements within the Community Facilities District.

Drought Conditions. The State of California in recent years has been facing water shortfalls. Most recently, on May 9, 2016, in response to a five-year drought, Governor Edmund G. Brown, Jr. issued an executive order which established a new water use efficiency framework for California. The order bolstered the State's drought resilience and preparedness by establishing longer-term water conservation measures that include permanent monthly water use reporting, new urban water use targets, reducing system leaks and eliminating clearly wasteful practices, strengthening urban drought contingency plans and improving agricultural water management and drought plans. On May 18, 2016, the State Water Resources Control Board adopted a statewide water conservation approach that requires local water agencies to ensure a three-year supply assuming three more dry years like the ones the State experienced from 2012 to 2015. Water agencies that face shortages under three additional dry years are required to meet a conservation standard equal to the amount of the shortage.

The historic drought has lasted for years and will not be resolved by a single year's rainfall. The implementation of mandatory water reductions is ongoing. The Community Facilities District cannot predict how long the drought conditions will last, what effect drought conditions may have on property values, to what extent water reduction requirements may affect the homeowners or to what extent the drought could cause disruptions to economic activity within the boundaries of the Community Facilities District.

Hazardous Substances. One of the most serious risks in terms of the potential reduction in the value of Taxable Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of Taxable Property that is realizable upon a delinquency and subsequent institution of foreclosure proceedings. See "SECURITY FOR THE 2016 BONDS" for more information.

The value of the property within the Community Facilities District, as set forth in the Appraisal Report, does not take into account the possible reduction in marketability and value of any of the completed homes by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The Community Facilities District has not independently verified and is not aware that the owner (or operator) has such a current liability with respect to any of the completed homes. However, it is possible that such liabilities do currently exist and that the Community Facilities District is not aware of them.

Prima Deshecha Landfill. The northern property boundary of the Prima Deshecha Landfill is located approximately 600 feet southeast of the Community Facilities District. Active disposal areas are located between the existing terminus of Camino Las Ramblas and existing La Pata Avenue, with future disposal areas east of La Pata. The landfill opened in 1976 and is owned and operated by the County of Orange Integrated Waste Management Department. It is a Class III landfill, which accepts only non-hazardous municipal solid waste. It is approximately 1,530 acres with 699 acres permitted for refuse disposal. Prima Deshecha Landfill is currently permitted by the California Integrated Waste Management Board to receive a maximum of 4,000 tons of waste per day. The Prima Deshecha Landfill is projected to close and cease all landfilling operations by 2067.

Very High Fire Hazard Severity Zone. The Community Facilities District lies within a Very High Fire Hazard Severity Zone pursuant to applicable State maps. The property in the Community Facilities District is susceptible to fires, and the physical conditions of the area, including such factors as fuel, slope, and weather, could cause fires that are more severe, more difficult to put out and, as a result, could cause more damage than fires in other areas without such conditions. Owners of lots in the Community Facilities District may have additional maintenance responsibilities to prevent or retard fires, including restrictions on constructing improvements on their lots, as stated in California Government Code Section 51182. These maps are updated periodically, and no representation can be made with respect to any future Very High Fire Hazard Severity Zone determinations.

No Acceleration Provisions

The 2016 Bonds do not contain a provision allowing for the acceleration of the 2016 Bonds in the event of a payment default or other default under the terms of the 2016 Bonds or the Fiscal Agent Agreement. Pursuant to the Fiscal Agent Agreement, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX D – "Summary of Certain Provisions of the Fiscal Agent Agreement" herein). So long as the 2016 Bonds are in book-entry form, DTC will be the sole Bondowner. See APPENDIX G – "Book-Entry System.

Community Facilities District Formation

California voters, on June 6, 1978, approved an amendment ("Article XIIIA") to the California Constitution. Section 4 of Article XIIIA, requires a vote of two-thirds of the qualified electorate to impose "special taxes," or any additional *ad valorem*, sales or transaction taxes on real property. At an

election held within the Community Facilities District pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance authorized School District facilities and City facilities and approved the First Amended Rate and Method. The Supreme Court of the State has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIIIA, nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a "special tax" for purposes of Article XIIIA.

Section 53341 of the Act requires that any action or proceeding to attack, review, set aside, void or annul the levy of a special tax or an increase in a special tax pursuant to the Act shall be commenced within 30 days after the special tax is approved by the voters. No such action has been filed with respect to Special Tax.

Billing of Special Taxes

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales" for a discussion of the provisions which apply and procedures which the Community Facilities District is obligated to follow in the event of delinquency in the payment of installments of Special Taxes.

Inability to Collect Special Taxes

In order to pay debt service on the 2016 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District will covenant in the Fiscal Agent Agreement under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2016 Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2016 Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the Board to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SECURITY FOR THE 2016 BONDS – Proceeds of Foreclosure Sales."

As indicated above, by policy, the County does include special taxes of the community facilities districts formed by the School District in its Teeter program. See "SECURITY FOR THE 2016 BONDS – Special Taxes Are Within Teeter Plan." So long as the Special Taxes are included within the Teeter Plan, the County will distribute Special Taxes to the Community Facilities District on the basis of the Special Tax levy, rather than on the basis of actual Special Tax collections.

Right to Vote on Taxes Act

An initiative measure, Proposition 218, commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIIC ("Article XIIIC") and Article XIIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative as they may relate to community facilities districts are subject to interpretation by the courts.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2016 Bonds.

It may be possible, however, for voters of the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2016 Bonds but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2016 Bonds.

The Act also establishes time limits for initiating any challenge to the validity of special taxes levied pursuant to the Act and any challenge to the validity of bonds issued pursuant to the Act. Section 53341 of the Act provides that:

"Any action or proceeding to attack, review, set aside, void, or annul the levy of a special tax or an increase in a special tax pursuant to this chapter shall be commenced within 30 days after the

special tax is approved by the voters. Any appeal from a final judgment in that action or proceeding shall be perfected within 30 days after the entry of judgment."

Section 53359 of the Act provides that:

"An action to determine the validity of bonds issued pursuant to this chapter or the validity of any special taxes levied pursuant to this chapter may be brought pursuant to Chapter 9 (commencing with Section 860) of Title 10 of Part 2 of the Code of Civil Procedure but shall, notwithstanding the time limits specified in Section 860 of the Code of Civil Procedure, be commenced within 30 days after the voters approve the issuance of the bonds or the special tax if the action is brought by an interested person pursuant to Section 863 of the Code of Civil Procedure. Any appeal from a judgment in that action or proceeding shall be commenced within 30 days after entry of judgment."

Based on the forgoing, with respect to any challenge to the validity of the Special Tax or the 2016 Bonds or Parity Bonds, if any, the Community Facilities District believe that under current State law the time for initiating any such legal challenge has expired.

Like its antecedents, the Initiative is likely to undergo both judicial and legislative scrutiny before its impact on the Community Facilities 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 Community Facilities District is not able to predict the outcome of any such examination.

For example, on August 1, 2014, in City of San Diego v. Shapiro, an Appellate Court ruled that an election held by the City of San Diego to authorize the levying of special taxes on hotels City-wide pursuant to a City ordinance which created a convention center facilities district and which specifically defined the electorate to consist solely of (1) the owners of real property in the City on which a hotel is located, and (2) the lessees of real property owned by a governmental entity on which a hotel is located, was invalid under the California Constitution because such landowners and lessees are neither "qualified electors" of the City for purposes of Articles XIIIA, Section 4 of the California Constitution nor do they comprise a proper "electorate" under Article XIIIC, Section 2(d). The Court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes pursuant to Section 53326(b) of the Act is constitutional under Article XIIIA, Section 4 and Article XIIIC, Section 2(d) in districts that lack sufficient registered voters to conduct an election among registered voters, and thus does not affect the validity of the levy of the Special Taxes by the Community Facilities District. In addition, the provisions of the Act described above that establish time limits for initiating any challenge to the validity of the Special Taxes levied pursuant to the Act or the issuance of Bonds pursuant to the Act described above would provide obstacles to any party which sought to present a legal challenge to the validity of the Special Taxes or the 2016 Bonds and Parity Bonds based on the City of San Diego v. Shapiro case. The Community Facilities District is not able to predict the outcome of any such examination of the Initiative in relation to community facilities districts formed under the Act.

The Community Facilities District covenants in the Fiscal Agent Agreement that no modification of the maximum authorized Special Taxes in the Community Facilities District will be approved by the Community Facilities District prior to the issuance of all Parity Bonds and payment in full of the Incremental Payment Obligation and thereafter only if it is confirmed in writing, by an independent financial consultant, that, immediately subsequent to such modifications, the amount of the maximum Special Taxes on Developed Property pursuant to the Act and the applicable resolutions and ordinances of the Community Facilities District is at least 1.10 times Maximum Annual Debt Service plus Administrative Expenses on all Outstanding 2016 Bonds and Parity Bonds.

The Community Facilities District further covenants that in the event an ordinance is adopted pursuant to Section 3 of Article XIIIC of the California Constitution, which purports to reduce or otherwise alter the maximum authorized Special Taxes, it will, to the extent of available Community Facilities District funds therefore, commence and pursue legal action seeking to preserver its ability to comply with its covenant contained in the preceding paragraph.

The foregoing discussion of the Initiative and related matters should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities 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 2016 Bonds as well as the market for the 2016 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

Ballot Initiatives and Legislative Measures

The Initiative was adopted pursuant to a measure qualified for the ballot pursuant to California's constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County, the School District or local districts to increase revenues or to increase appropriations or on the ability of a property owner to complete the development of the property.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the 2016 Bonds or, if a secondary market exists, that such 2016 Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2016 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the 2016 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2016 Bonds as a result of future acts or omissions of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Fiscal Agent Agreement. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2016 Bonds, the Community Facilities District has covenanted in the Fiscal Agent Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2016 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the 2016 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2016 Bonds were issued as a result of acts or omissions of the Community Facilities District in violation

of the Code. Should such an event of taxability occur, the 2016 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Fiscal Agent Agreement. See "THE 2016 BONDS – Redemption."

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing or examination of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2016 Bonds will be selected for audit or examination by the IRS. It is also possible that the market value of such 2016 Bonds might be affected as a result of such an audit of such 2016 Bonds (or by an audit of similar bonds or securities).

Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2016 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the 2016 Bonds from realizing the full current benefit of the tax status of such interest.

The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of or marketability of, the 2016 Bonds. In recent years, legislative changes were proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2016 Bonds. Prospective purchasers of the 2016 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion. As discussed in this Official Statement, under the caption "LEGAL MATTERS," interest on the 2016 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2016 Bonds were issued as a result of future acts or omissions of the Community Facilities District in violation of its covenants in the Fiscal Agent Agreement. Should such an event of taxability occur, the 2016 Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Fiscal Agent Agreement.

Backup Withholding

Interest paid with respect to tax-exempt obligations such as the 2016 Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest with respect to the 2016 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Limitations on Remedies

Remedies available to the 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 2016 Bonds or to preserve the tax-exempt status of the 2016 Bonds. See "Payments by FDIC, Fannie Mae, Freddie Mac and other Federal Agencies," "No Acceleration Provisions" and "Billing of Special Taxes" herein.

LEGAL MATTERS

Legal Opinion

The legal opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, approving the validity of the 2016 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as APPENDIX F. A copy of the legal opinion will be printed on each 2016 Bond. James F. Anderson Law Firm, A Professional Corporation, Laguna Hills, California, is serving as Disclosure Counsel. Burke, Williams & Sorensen, LLP, Santa Ana, California, will also pass upon certain legal matters for the School District and the Community Facilities District as counsel to these entities.

Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Community Facilities District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2016 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F hereto.

To the extent the issue price of any maturity of the 2016 Bonds is less than the amount to be paid at maturity of such 2016 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2016 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2016 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2016 Bonds is the first price at which a substantial amount of such maturity of the 2016 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2016 Bonds accrues daily over the term to maturity of such 2016 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2016 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2016 Bonds. Beneficial Owners of the 2016 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2016 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2016 Bonds in the original offering to the public at the first price at which a substantial amount of such 2016 Bonds is sold to the public.

The 2016 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2016 Bonds. The Community Facilities District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2016 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2016 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2016 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2016 Bonds may adversely affect the value of, or the tax status of interest on, the 2016 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2016 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2016 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2016 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the 2016 Bonds to some extent for high income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2016 Bonds. Prospective purchasers of the 2016 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which 2016 Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2016 Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Community Facilities District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Community Facilities District has covenanted, however, to comply with the requirements of the Code.

Bonds counsel's engagement with respect to the 2016 Bonds ends with the issuance of the 2016 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Community Facilities District or the Beneficial Owners regarding the tax-exempt status of the 2016 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Community Facilities District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Community Facilities District legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the 2016 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or

the marketability of, the 2016 Bonds, and may cause the Community Facilities District or the Beneficial Owners to incur significant expense.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the 2016 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2016 Bonds or in any way contesting or affecting the validity of the 2016 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District, on behalf of the Community Facilities District, will be delivered to the Underwriter simultaneously with the delivery of the 2016 Bonds.

No General Obligation of School District or Community Facilities District

The 2016 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax and proceeds of the 2016 Bonds, including amounts in the Reserve Fund, Special Tax Fund and Bond Fund and investment income on funds held pursuant to the Fiscal Agent Agreement (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2016 Bonds shall be limited to the Special Taxes to be collected within the Community Facilities District.

NO RATING

The 2016 Bonds have not been rated by any securities rating agency and there are no current plans to do so in the future.

UNDERWRITING

The 2016 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated, at a purchase price of \$13,270,828.85 (which represents the aggregate principal amount of the 2016 Bonds of \$12,575,000.00, plus a net original issue premium of \$799,572.60 and less an underwriter's discount of \$103,743.75).

The purchase agreement relating to the 2016 Bonds provides that the Underwriter will purchase all of the 2016 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2016 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

Fees payable to certain professionals, including the Underwriter, Nossaman LLP, as Underwriter's Counsel, James F. Anderson Law Firm, A Professional Corporation, as Disclosure Counsel, Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, and U.S. Bank National Association, as the Fiscal Agent, are contingent upon the issuance of the 2016 Bonds. The fees David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2016 Bonds. From time to time, Disclosure Counsel represents the Underwriter on matters unrelated to the 2016 Bonds.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2016 Bonds.

The execution and delivery of the Official Statement by the Community Facilities District has been duly authorized by the Capistrano Unified School District on behalf of the Community Facilities District.

COMMUNITY FACILITIES DISTRICT NO. 2005-1 (WHISPERING HILLS) OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT

By:

Clark Hampton, Deputy Superintendent,
Business & Support Services,
Capistrano Unified School District, on behalf of
Community Facilities District No. 2005-1

(Whispering Hills) of the Capistrano Unified

School District

APPENDIX A

GENERAL INFORMATION ABOUT THE CAPISTRANO UNIFIED SCHOOL DISTRICT

The following information relating to the School District is included only for the purpose of supplying general information regarding the School District. Neither the faith and credit nor the taxing power of the School District has been pledged to payment of the 2016 Bonds, and the 2016 Bonds will not be payable from any of the School District's revenues or assets.

Introduction

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Capistrano Unified School District, 33122 Valle Road, San Juan Capistrano, CA 92675 Attention: Deputy Superintendent, Business & Support Services. There may be a charge for copying, mailing and handling.

General Information

The Capistrano Unified School District (the "School District") is a political subdivision of the State of California (the "State") and is governed by a seven-member Board of Trustees (the "Board"). Founded in 1965, the School District encompasses 195 square miles in seven cities and a portion of the unincorporated area of Orange County (the "County"). The jurisdiction of the School District includes all or part of the cities of San Clemente, Dana Point, San Juan Capistrano, Laguna Niguel, Aliso Viejo, Mission Viejo and Rancho Santa Margarita, and the communities of Las Flores, Coto de Caza, Dove Canyon, Ladera Ranch, Sendero/Rancho Mission Viejo and Wagon Wheel.

The School District provides kindergarten through 12th grade public education to more than 49,000 students on 55 campuses. The School District's second period report (P-2, the period from July 1 to April 15) of average daily attendance ("ADA"), computed in accordance with State law for the 2015-16 academic year, is estimated at 47,226. The estimated population within the School District's boundaries was approximately 358,800 based on United States census figures for 2014. The School District reported 50,095 students enrolled at the California Basic Educational Data System ("CBEDS") for Fiscal Year 2013-14 and 49,838 students enrolled at the CBEDS during Fiscal Year 2014-15. The School District reports 49,120 students enrolled at the CBEDS during Fiscal Year 2015-16.

Administration and Enrollment

The School District is governed by the Board of Trustees (the "Board"). The seven Board members are elected to four-year terms in alternate slates of four and three in elections held every two years. If a vacancy arises during any term, the vacancy is filled by an appointment by a majority vote of the remaining Board members and, if there is no majority, by a special election.

The administrative staff of the School District includes Kirsten M. Vital, Superintendent, and Clark Hampton, Deputy Superintendent, Business & Support Services.

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The School District also employs an

Assistant Superintendent of Education Services, an Assistant Superintendent of Human Resource Services and an Assistant Superintendent of SELPA, Special Education.

Commencing with Fiscal Year 2013-14, the State budget restructures the manner in which the State allocates funding for K-12 education. In Fiscal Year 2013-14, State legislation replaced the majority of revenue limit and categorical funding formulas with a new set of funding formulas. The Governor refers to the proposals as the "Local Control Funding Formula." The State budget provided funding in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The new system provides a more uniform base per-pupil rate for each of several grade levels. The base rates are augmented by several funding supplements for (1) students needing additional services, defined as English learners, students from lower income families and foster youth; (2) school districts with high concentrations of English learners and lower income families; and (3) high school students. The new funding system requires school districts to develop local plans describing how the school district intends to educate its students.

From Fiscal Year 2011-12 through Fiscal Year 2015-16 the School District's enrollment has been stable. The demographics of the School District reflect a slight decrease in elementary school population, stable trend in middle school population and slight increase in high school population. California voters approved Proposition 13 that not only limits the tax rate on property, but gives an incentive for owners to occupy longer resulting in slower turnover of homes to new families. Information concerning enrollment for these years is set forth below:

Capistrano Unified School District Student Enrollment

Fiscal Year	CBEDS Enrollment	District Average Daily Attendance (1)	District Base Revenue Limit
2011-12	50,538	48,717	\$6,492
2012-13	50,500	48,469	6,704
2013-14	50,095	48,354	6,810 (2)
2014-15	49,838	47,936	6,848 (2)
2015-16	49, 120	47,226	$N/A^{(2)}$

⁽¹⁾ Estimated second period report (P-2, the period from July 1 to April 15).

Source: California Department of Education and the School District.

⁽²⁾ Commencing with Fiscal Year 2013-14, the State restructured allocations for funding K-12 education and begins implementing the Local Control Funding Formula. See " – Administration and Enrollment" above.

Labor Relations

As of December 2015, the School District employed approximately 2,162 certificated professionals and approximately 1,456 classified employees. The professionals, except management and some part-time employees, are represented by the bargaining units as noted below:

Capistrano Unified School District District Employees

Labor Organization	Approximate Number of Employees In Organization ¹	Contract Expiration Date	
Capistrano Unified Educators Association	1,655	6/30/17	
California School Employees Association	1,570	6/30/18	
Teamsters	102	6/30/18	

¹Excludes management and part-time employees who are not represented by any of the labor organizations.

Source: The School District.

Retirement Programs

The School District participates in the State of California Teachers' Retirement System ("STRS"). This plan covers certificated employees. The School District's contribution to STRS in Fiscal Year 2012-13 was \$14,727,500 and in Fiscal Year 2013-14 was \$15,679,891. The School District's contribution to STRS for Fiscal Year 2014-15 was \$17,782,182. The School District's contribution to STRS for Fiscal Year 2015-16 is estimated to be \$33,347,224. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees' Retirement System ("PERS"). This plan covers certificated employees who elect and all classified personnel who are employed 1,000 or more hours per fiscal year. The School District's contribution to PERS in Fiscal Year 2012-13 was \$5,642,008 and in Fiscal Year 2013-14 was \$5,654,959. The School District's contribution to PERS for Fiscal Year 2014-15 was \$6,198,896. The School District's contribution to PERS for Fiscal Year 2015-16 is estimated to be \$6,753,618. In order to receive PERS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in retirement benefits. The contribution rates are based on state-wide rates set by the STRS and PERS retirement boards. STRS has a substantial state-wide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the School District's share.

The School District offers post-retirement benefits for employees up to age 65. The School District's contribution for these benefits for the Fiscal Year ending June 30, 2013, was \$2,137,149, for the Fiscal Year ending June 30, 2014 was \$2,759,413 and for the Fiscal year ending June 30, 2015, was \$3,327,978. The School District's contribution for these benefits is estimated to be \$3,474,350 for Fiscal Year 2015-16. The program is operated on a pay-as-you go basis and budgets the current costs each year with an increase based on actual health and welfare increases.

Insurance

The School District operates workers' compensation and property and liability insurance programs that are accounted for in the Internal Service Fund. In addition, the School District's health and welfare benefit programs are accounted for in the Internal Service Fund.

In 1998, the State of California authorized the School District to operate a Self-Insured Workers' Compensation Plan to finance liabilities arising from employee industrial injuries. The School District responded by implementing such a plan on July 1, 1998. Beginning in 2009, the School District has established a fund to self-insure itself for workers' compensation coverage. The workers' compensation experience of the School District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. Excess liability coverage for workers' compensation claims is provided through the purchase of commercial insurance.

The School District operates a self-insurance program to cover general liability claim losses up to a limit of \$100,000 per claim and for property losses up to \$25,000 per claim. During fiscal year ending June 30, 2015, the School District contracted with Alliance of Schools Cooperative Insurance Programs (ASCIP) for property and liability insurance coverage. Excess liability coverage is obtained through participation in Schools Excess Liability Fund (SELF) (through ASCIP). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. In addition, property and liability claims for which the School District retains the risk of loss (claims below the School District's retained limits), are administered by the Self Insurance Fund.

APPENDIX B

FIRST AMENDED RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2005-1 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (WHISPERING HILLS)



APPENDIX B

FIRST AMENDED RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2005-1 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (WHISPERING HILLS)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) ("CFD No. 2005-1") and collected each Fiscal Year commencing in Fiscal Year 2011-12, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Religious Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 2005-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. <u>DEFINITIONS</u>

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

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

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2005-1: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the School District or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 2005-1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, CFD No. 2005-1 or any designee thereof of complying with disclosure requirements of the School District, CFD No. 2005-1 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 2005-1 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the School District's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the School District or CFD No. 2005-1 for any other administrative purposes of CFD No. 2005-1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

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

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

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

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

"Board" means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 2005-1.

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2005-1 under the Act.

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

"CFD No. 2005-1" means Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills).

"County" means the County of Orange.

"Custom Lot Property" means, for each Fiscal Year, any Assessor's Parcel of Taxable Property (i) for which (a) escrow has closed prior to January 1 of the prior Fiscal Year to an owner other than Rancho San Juan Development LLC or (b) a building permit for new construction was issued prior to January 1 of the prior Fiscal Year; and (ii) that includes one or more of the following lots: lots 141 through 155 of Tract No. 16634 recorded with the County on October 12, 2006. Notwithstanding any future lot line adjustments or consolidations, each of the fifteen lots specified above shall be considered a "custom lot" for purposes of the levy of both the Assigned Special Tax and Backup Special Tax. However, if all or a portion of the geographic area described as lots 141 through 155 of Tract No. 16634 is remapped and a new tract map is recorded for such area, each buildable lot in such new tract shall be considered a "custom lot" for purposes of the levy of both the Assigned Special Tax and Backup Special Tax.

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

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

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

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

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

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

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

"Property Owner Association Property" means any property within the boundaries of CFD No. 2005-1 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association.

"Proportionately" means for Undeveloped Property that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Undeveloped Property in CFD No. 2005-1. For Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property "Proportionately" means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor's Parcels of Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property in CFD No. 2005-1.

"Public Property" means any property within the boundaries of CFD No. 2005-1 that is transferred to a public agency on or after the date of formation of CFD No. 2005-1 and is used for rights-of-way or any other purpose and is owned by or dedicated to the federal government, the State of California, the County or any other public agency; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

"Religious Property" means all property within the boundaries of CFD No. 2005-1 which is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor's Parcels used primarily for religious schools, day care centers, or congregate care facilities.

"Residential Property" means (i) Custom Lot Property, and (ii) all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

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

"School District" means the Capistrano Unified School District.

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

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

"Special Tax Requirement" means that amount required in any Fiscal Year for CFD No. 2005-1 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to

establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of facilities eligible under the Act to the extent that the inclusion of such amount does not increase the Special Tax levy on Undeveloped Property; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

"State" means the State of California.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of CFD No. 2005-1 which are not exempt from the Special Tax pursuant to law or Section E below.

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

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

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

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

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

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

Each Fiscal Year, all Taxable Property within CFD No. 2005-1 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Classes 1 through 8, and Non-Residential Property shall be assigned to Land Use Class 9.

The Assigned Special Tax for Residential Property shall be based on whether it is Custom Lot Property or Single Family Property. The Assigned Special Tax for Custom Lot Property shall be based on the number of lots located within the Assessor's Parcel, as determined by the CFD Administrator. The Assigned Special Tax for Single Family Property shall be based on the Residential Floor Area of the dwelling unit(s) located on the Assessor's Parcel, as specified in Table 1 below. The Assigned Special Tax for Non-Residential Property shall be based on the Acreage of the Assessor's Parcel.

C. MAXIMUM SPECIAL TAX RATE

1. Developed Property

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

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

b. <u>Assigned Special Tax</u>

The Assigned Special Tax for each Land Use Class for Fiscal Year 2011-12 is shown below in Table 1.

TABLE 1

Assigned Special Taxes for Developed Property For Fiscal Year 2011-12 Community Facilities District No. 2005-1

Land Use Class	Residential Floor Area	Description	Assigned Special Tax
1	NA	Custom Lot Property	\$13,902 per lot
2	>4,600 SF	Residential Property	\$8,605 per unit
3	4,301 –4,600 SF	Residential Property	\$7,855 per unit
4	3,901 –4,300 SF	Residential Property	\$7,638 per unit
5	3,701 –3,900 SF	Residential Property	\$7,105 per unit
6	3,401 –3,700 SF	Residential Property	\$6,981 per unit
7	2,901 –3,400 SF	Residential Property	\$6,641 per unit
8	≤2,900 SF	Residential Property	\$6,177 per unit
9	N/A	Non-Residential Property	\$21,000 per Acre

c. <u>Increase in the Assigned Special Tax</u>

The Assigned Special Taxes in Table 1 shall be applicable for Fiscal Year 2011-12, and shall increase thereafter, commencing on July 1, 2012 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Assigned Special Tax for the previous Fiscal Year.

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

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes

located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each land use as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

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

(1) Residential Property (Excluding Custom Lot Property)

The Backup Special Tax for Residential Property excluding Custom Lot Property, shall equal \$21,485 per Acre for Fiscal Year 2011-12. The Backup Special Tax shall increase thereafter, commencing on July 1, 2012 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Backup Special Tax for the previous Fiscal Year.

(2) Custom Lot Property

The Backup Special Tax for Custom Lot Property shall equal \$13,902 per lot for Fiscal Year 2011-12. The Backup Special Tax shall increase thereafter, commencing on July 1, 2012 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Backup Special Tax for the previous Fiscal Year.

Notwithstanding the foregoing, if all or any portion of the Custom Lot Property is subsequently changed or modified in a manner that results in fewer than 15 custom lots, the Backup Special Tax for each Assessor's Parcel of Custom Lot Property that is changed or modified shall be a rate per Acre calculated as follows:

- 1. Determine the total Backup Special Tax anticipated to apply to the changed or modified portion of the Custom Lot Property prior to the change or modification.
- 2. Divide the amount determined pursuant to paragraph 1 above by the taxable Acreage of the Custom Lot Property which is expected to be located in such changed or modified area, as determined by the CFD Administrator.
- 3. The resulting quotient is the Backup Special Tax per Acre, which shall be applicable to Assessor's Parcels of Custom Lot Property in such changed or modified area.

The Backup Special Tax per Acre shall increase thereafter on each July 1, by an amount equal to two percent (2%) of the Backup Special Tax per Acre for the previous Fiscal Year.

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

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

The Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property in CFD No. 2005-1 shall be \$21,485 per Acre for Fiscal Year 2011-12, and shall increase thereafter, commencing on July 1, 2012 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2011-12 and for each following Fiscal Year, the Board shall levy the Special Tax as follows:

<u>First:</u> The Special Tax shall be levied on each Assessor's Parcel of Developed Property at 100% of the applicable Assigned Special Tax;

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

<u>Third</u>: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

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

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2005 1.

E. EXEMPTIONS

No Special Taxes shall be levied on Public Property, Religious Property, and Property Association Property, so long as the Acreage of Taxable Property within CFD No. 2005-1 is at least 58.71 Acres. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property, Public Property or Religious Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property, Public Property or Religious Property, its tax-exempt status will be revoked.

To the extent that the exemption of an Assessor's Parcel of Public Property, Religious Property, or Property Association Property would reduce the Acreage of Taxable Property within CFD No. 2005-1 below 58.71 Acres, such Assessor's Parcel shall be classified as Taxable Public Property, Taxable Religious Property, or Taxable Property Association Property, as applicable, and shall be subject to the levy of the Special Tax and shall be taxed as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

F. REVIEW/APPEAL COMMITTEE

The Board shall establish as part of the proceedings and administration of CFD No. 2005-1 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

G. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2005-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means either \$15.8 million in 2011 dollars, which shall increase by the Construction Inflation Index on July 1, 2012, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2005-1 under the authorized financing program for CFD No. 2005-1, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

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

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

"Future Facilities Costs" means the CFD Public Facilities minus (i) public facility costs previously paid from the Construction Fund; (ii) moneys currently on deposit in the Construction Fund; and (iii) moneys currently on deposit in an escrow fund, if any, that are expected to be available to finance public facilities costs.

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

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 2005-1 prior to the date of prepayment.

1. Prepayment in Full

All Assessor's Parcels of Developed Property and Assessor's Parcels of Undeveloped Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 2005-1 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel or any other Assessor's Parcel owned by such owner at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

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

Bond Redemption Amount

plus Redemption Premium plus Future Facilities Amount plus Defeasance Amount

plus Administrative Fees and Expenses

less Reserve Fund Credit

less Capitalized Interest Credit

Total: equals Prepayment Amount

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

Paragraph No.:

- 1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
- 2. For Assessor's Parcels of Developed Property compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property (for which a

- building permit has been issued), compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
- 3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2005-1 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2005-1, excluding any Assessor's Parcels which have been prepaid, and
 - (b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated Backup Special Taxes at buildout of CFD No. 2005-1 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
- 4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) 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 current Future Facilities Costs.
- 7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
- 8. 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.
- 9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
- 10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
- 11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
- 12. Verify the administrative fees and expenses of No. 2005-1, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of

recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

- 13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
- 14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
- 15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
- 16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2005-1.

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

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

2. Prepayment in Part

The Maximum Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be

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

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

These terms have the following meaning:

PP = the partial prepayment

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

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

A = the Administration Fees and Expenses from Section H.1

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax shall notify the CFD Administrator of such owner's intent to partially prepay the Maximum Special Tax and the percentage by which the Maximum Special Tax shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Special Tax for an Assessor's Parcel within 30 days of the request and will charge a fee to the owner requesting prepayment for providing this figure.

With respect to any Assessor's Parcel that is partially prepaid, the School District shall (i) distribute the funds remitted to it according to Paragraph 16 of Section H.1. and (ii) indicate in the records of CFD No. 2005-1 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

Notwithstanding the foregoing, no full or partial Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 2005-1 both prior to and after the proposed prepayment, less expected Administrative Expenses, is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

I. TERM OF SPECIAL TAX

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2051-52.

APPENDIX C APPRAISAL REPORT



APPRAISAL REPORT

CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 2005-1 2016 SPECIAL TAX BONDS

Prepared for:

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

> James B. Harris, MAI Berri Cannon Harris Harris Realty Appraisal 5100 Birch Street, Suite 200 Newport Beach, CA 92660

> > June 2016

Harris Realty Appraisal

5100 Birch Street, Suite 200 Newport Beach, California 92660 949-851-1227 FAX 949-851-2055 www.harris-appraisal.com

June 10, 2016

Mr. Clark Hampton
Deputy Superintendent, Business & Support Services
CAPISTRANO UNIFIED SCHOOL DISTRICT
33122 Valle Road
San Juan Capistrano, CA 92675

Re: Community Facilities District No. 2005-1 Series 2016 Special Tax Bonds

Dear Mr. Hampton:

In response to your authorization, we have prepared a self-contained appraisal report that addresses all of the property subject to Special Tax within the boundaries of Community Facilities District No. 2005-1 (CFD No. 2005-1) ("District"). This appraisal includes an estimate of Minimum Market Value of the completed and under construction dwelling units within the Valinda and Mirador subdivisions. As of the date of value, all of the 70 Valinda dwellings have closed escrow to individual homeowners. According to the District's Special Tax Consultant, one of the 70 dwellings within the Valinda product had their Special Tax paid in full as of the date of value. Therefore, Lot 53 of Tract 16634 is not subject to Special Tax and is not a part of this appraisal assignment or valuation. There are 70 dwellings within the Mirador product, of which 62 were sold as of the date of value. The eight unsold dwelling units include four model homes and four production homes. Two of the four production homes are reported to be in escrow as of the date of value. The land for the 15 proposed custom lots within the District is currently in a raw condition. According to instruction from the District and their Financial Advisor, their Assessed Values are reported in the appraisal report for the custom lots. The 69 lots within the Valinda subdivision, 70 lots within the Mirador subdivision and raw land proposed for 15 custom lots are all the property subject to the Special Tax for CFD No. 2005-1.

The appraisal includes a mass appraisal analysis for the completed and under construction dwelling units, which results in a Minimum Market Value for the 139 dwellings. Please review the definitions of Minimum Market Value and Mass Appraisal in the definitions section of this report. A reporting of Assessed Values is provided for the raw land proposed for 15 custom lots.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), each ownership is valued in bulk, representing a discounted value to that ownership as of the date of value.

Based on the investigation and analyses undertaken, our experience as real estate appraisers and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinions of Minimum Market Value are formed as of June 1, 2016 for Capistrano Unified School District CFD No. 2005-1. The reporting of Assessed Values is as of January, 2015.

Mr. Clark Hampton June 10, 2016 Page Two

MINIMUM MARKET VALUE – 131 INDIVIDUAL OWNERSHIPS ONE HUNDRED FIFTY-THREE MILLION ONE HUNDRED FIVE THOUSAND DOLLARS \$153,105,000

MINIMUM MARKET VALUE - RANCHO SAN JUAN DEVELOPMENT LLC

(4 MODEL HOMES & 4 PRODUCTION HOMES)

EIGHT MILLION EIGHT HUNDRED TWENTY-SEVEN THOUSAND DOLLARS

\$8,827,000

ASSESSED VALUE - RANCHO SAN JUAN DEVELOPMENT LLC (Raw Land Proposed for 15 Custom Lots) ONE MILLION FIFTY-SIX THOUSAND DOLLARS \$1,056,000

The self-contained report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This report has been prepared for Capistrano Unified School District for use in the sale of Community Facilities District No. 2005-1 bonds. The intended users of this report are Capistrano Unified School District, its underwriter, financial advisor, legal counsel, consultants, and potential bond investors. This appraisal has been prepared in accordance with and is subject to the requirements of *The Appraisal Standards for Land Secured Financing* as published by the California Debt and Investment Advisory Commission; the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Foundation; and the *Code of Professional Ethics* and the *Standards of Professional Appraisal Practice* of the Appraisal Institute.

We meet the requirements of the Competency Provision of the *Uniform Standards of Professional Appraisal Practice*. A statement of our qualifications appears in the Addenda.

Respectfully submitted,

Blui lann Hams
Berri Cannon Harris
Principal
AG009147

James B Harres

James B. Harris, MAI

Principal AG001846

SUMMARY OF FACTS AND CONCLUSIONS

EFFECTIVE DATE OF APPRAISAL June 1, 2016

DATE OF REPORT June 10, 2016

INTEREST APPRAISED Fee Simple Estate, subject to special tax liens

LEGAL DESCRIPTION Lots 1 through 52 and 54 through 155, Tract

No.16634

OWNERSHIPS 131 Individual Homeowners (131 dwellings)

Ownerships included in Addenda

Rancho San Juan Development LLC (8

dwellings):

4 complete Mirador models

4 Mirador production dwellings

15 proposed custom lots (raw land)

SITE CONDTION

The District is planned and approved for development of 155 single family detached dwellings. The recorded tract map includes 140 lots proposed for two subdivisions on 10,000 square foot minimum lots. In addition, 15 custom lots are planned with an average lot size of 33,500± square feet. The Valinda product includes 70 lots that have been improved to completed dwellings and have sold to individual homeowners. According to the District's Special Tax Consultant, Lot 53 within the Valinda product had their Special Tax paid in full as of the date of value. Therefore, Lot 53 of Tract 16634 is not a part of this appraisal assignment. The Mirador product includes 70 lots which are complete or nearly completed dwellings units. As of the date of value, 62 dwellings had closed escrow. In addition two production homes are in escrow, and two production homes and 4 models homes remain unsold. The land proposed for 15 custom lots is in a raw undeveloped condition.

SUMMARY OF FACTS AND CONCLUSIONS

HIGHEST AND BEST USE Continued development of single-family detached

homes

VALUATION CONCLUSIONS Minimum Market Values

131 Individual Homeowners \$153,105,000

Rancho San Juan Develop- \$8,827,000

ment LLC (8 DUs built)

Assessed Value

Rancho San Juan Develop- \$1,056,000

ment LLC

(raw land proposed for 15

custom lots)

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Addenda

Qualifications Assessed Values Dwelling Sales by Year

INTRODUCTION

Purpose of the Report

The purpose of this appraisal is to estimate the Minimum Market Value for the *fee simple estate*, *subject to the special tax lien* for the land and improvements within Community Facilities District No. 2005-1 located in the City of San Juan Capistrano in Orange County. The purpose of this appraisal is to estimate the "As Is" Minimum Market Value of the 131 built and sold dwelling units, 4 dwellings nearly complete and 4 completed model homes. According to the specific instruction from the District's Financial Advisor, a reporting of the Assessed Values is included for the raw land.

The opinions set forth are subject to the assumptions and limiting conditions set forth in this appraisal, and the guidelines as set forth by the Capistrano Unified School District.

Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for Community Facilities District bond financing purposes only. The subject property is described more particularly within this report. The bonds are issued pursuant to the Mello-Roos Community Facilities District Act of 1982, as amended. The maximum authorized bonded indebtedness for CFD No. 2005-1, is \$30,000,000. This series of bonded indebtedness is expected to be \$10,575,000.

Client and Intended Users of the Report

This report was prepared for our client, Capistrano Unified School District. The intended users of the report include the District, its counsel, underwriter, financial advisor, consultants, and potential bond purchasers.

Scope of the Assignment

The scope of this assignment includes an estimate of Minimum Market Value for 139 lots, which includes: 131 built and sold dwelling units, 4 model homes, and 4 built production homes (2 in escrow). In addition, Assessed Values are reported for the raw

land proposed for 15 custom lots. The 131 sold dwellings are under individual home ownerships and the balance of the District is under the ownership of Rancho San Juan Development LLC. This is a fully documented self-contained appraisal report. Any lands designated for park, open space or civic uses within this CFD and not subject to special tax are not included in this assignment.

The residential land and improvements are valued in their "as is" condition as of the date of value. Development of CFD No. 2005-1 includes 69 completed and sold dwelling units within the Valinda product, subject to Special Tax. The Mirador product includes 62 completed and sold dwelling units, 4 nearly complete production dwellings and 4 completed model homes. The balance of the District proposed for 15 custom lots consists of raw land.

The following paragraphs summarize the process of collecting, confirming and reporting of data used in the analysis.

- 1. Gathered and analyzed demographic data from sources including the California Department of Finance (population data), Employment Development Department of the State of California (employment data), City of San Juan Capistrano (zoning information, building permit trends), Metrostudy (housing sales, inventory levels, and absorption), and sales personnel of comparable projects (market trends of individual home sales). Subject information was gathered from the District's Special Tax Consultant and Woodbridge Pacific Group.
- 2. Inspected the subject's neighborhood and reviewed existing product and similar products for consideration of Highest and Best Use of the District.

Date of Value and Report

The opinions of Minimum Market Value expressed in this report are stated as of June 1, 2016. The date of the appraisal report is June 10, 2016.

Date of Inspection

The subject property was inspected on June 7, 2016.

Property Rights Appraised

The property rights appraised are those of the fee simple estate subject to special tax liens of the real estate described herein.

Property Identification

The subject property is located in the City of San Juan Capistrano in Orange County. According to the Community Facilities District Report dated June 9, 2011, prepared by David Taussig & Associates, Inc., the District consists of 272 gross acres of which 60 acres are expected to be developed into uses subject to Special Tax. The District is proposed for a total of 155 single family detached dwellings. The District is further identified as Lots 1 through 155 of Tract Map No. 16654. According to the District's Special Tax Consultant, one of the 70 dwellings within the Valinda product had their Special Tax paid in full as of the date of value. Therefore, Lot 53 of Tract 16634 is not subject to Special Tax and is not a part of this appraisal assignment or valuation. Please refer to the map on the following page, which outlines the boundaries of CFD No. 2005-1 included in the Community Facilities District Report. Please refer to Page 5 which summarizes the condition of the lots, legal descriptions and ownerships.

Legal Description and Ownership

As previously mentioned, the District in its entirety includes land that has been improved to complete dwelling units, of which 131 have sold to individual homeowners. There is also raw undeveloped land proposed for future development of 15 custom lots. The balance of the District is under the ownership of the builder/developer, Rancho San Juan Development LLC. Please refer to the Addenda of this report under dwelling sales by year for a lot by lot summary of the 131 sold dwellings within CFD No. 2005-1. The table on page 5 summarizes the ownerships and legal descriptions of the District.

PROPOSED BOUNDARY OF

COMMUNITY FACILITIES DISTRICT NO. 2005-1 (Whispering Hills)

OF THE

CAPISTRANO UNIFIED SCHOOL DISTRICT

COUNTY OF ORANGE, STATE OF CALIFORNIA
ACCEPTED AND FILED AT THE
OPPOSITION DANIFIED SCHOOL DISTRICT

(3) FILED THIS 3 DAY OF MEY
2003, AT THE HOUR OF ASSESSMENT
AND COMMINITY FACILITIES DISTRICT AT PAGE
400 AND AS INSTRIMENT NOW 2001
THE OFFICE OF THE COUNTY RECORDER IN THE
COUNTY OF CAME 2005.

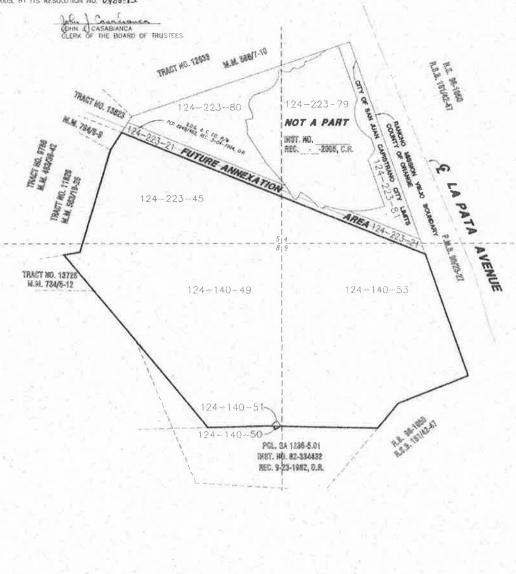
Not Compared with Original

(1) FILED IN THE OFFICE OF THE CLERK OF THE BOARD OF TRUSTEES THIS 2005.

DEN CASABIANCA CLERK OF THE BOARD OF TRUSTEES

TOWNER OF THE CALIFORNIA GOVERNMENT CODE SECTION 6103.

(2) I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF COMMUNITY FACULTIES DISTRICT NO. 2005-1, COUNTY OF DRANGS, STATE OF CALIFORNIA, WAS APPROVED BY THE BOARD OF TRUSTEES OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT AT A REGULAR MEETING THEREOF, HELD ON THE \$5.000 DAY OF \$1.000. BY ITS RESOLUTION NO. 0405-13.





LEGEND

SECTION LINE

BOUNDARIES OF COMMUNITY FACILITIES DISTRICT

PREPARED BY

PARDUE, CORNWELL AND ASSOCIATES

CONSULTING REAL ESTATE APPRAISERS

Summary of Ownership, Legal Description & Site Condition – June 1, 2016

No. Lots	Description	Lot Nos.	Ownership
Valinda F	Products: Lots 1-32 & 44-52	& 54-81, Tr 16634	
69	Built & Sold	1-32, 44-52 & 54-81	69 Individual Homeowners
1	NAP-Special Tax Prepaid	53	James & Shannon Lunnen
Mirador	Product: Lots 33-43 & 82-14	10, Tr 16634	
62	Built & Sold	33-43, 82-120, 127- 131, 133, 134, 135, & 137-140	62 Individual Homeowners
4	Models complete	121-124	Rancho San Juan Development, LLC
2	Nearly complete production In escrow	132 & 136	Rancho San Juan Development, LLC
2	Nearly complete production Available	125 & 126	Rancho San Juan Development, LLC
Raw Lan	d Proposed for 15 Custom	Lots: Lots 141-155, 1	Fract 16634
15	Raw Land	141-155	Rancho San Juan Development, LLC

Property History

Based on discussions with the owners, the subject property entered escrow in September of 1997. The site was purchased over a nine year period in three takedowns. The first takedown took place in September of 1997 for \$2.9 million, the second in April of 2003 for \$3.1 million and the last in June of 2006 for \$1.28 million. The total purchase price was \$7,280,000, or \$46,968 per lot, in raw unentitled condition. The buyer was Whispering Hills, LLC.

On April 6, 2009 the property transferred from Whispering Hills, LLC to Rancho San Juan Development LLC. The principals associated with the Whispering Hills, LLC retained ownership and Woodbridge Pacific Group was brought in as the homebuilder.

According to a timeline provided by the property owners, construction of in-tract infrastructure began in December 2008. At that time, the property was already mass-graded. In September 2011 the in-tract infrastructure was complete and construction of

the Valinda models began on November 1, 2011. The model homes were complete and Valinda opened for sales on May 15, 2012. The Valinda product reportedly sold-out March 26, 2014. Construction of the Mirador models began in January 2013 and were complete on October 12, 2013, when Mirador opened for sales. As of the date of value, June 1, 2016, all of the Valinda production homes and model homes have closed escrow. Sixty-two of the 70 Mirador dwellings have closed escrow. In addition, two production homes are in escrow and two production homes and four model homes are available for sale.

Definitions

Market Value¹

The most probable price in terms of money which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (a) Buyer and seller are typically motivated.
- (b) Both parties are well informed or well advised, and each acting in what he considers his own best interest.
- (c) A reasonable time is allowed for exposure in the open market.
- (d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.
- (e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Minimum Market Value

It may be appropriate for projects that have built-out and occupied product to use mass appraisal techniques. When conforming groups of property types within the same CFD are built and have achieved a stabilized occupancy, appraisers may use a limited valuation analysis to value a sampling of similar properties. In this analysis, the overall average sales price per square foot for each product is compared for each year. A conservative estimate of value per square foot is used in estimating Minimum Market

¹ Part 563, subsection 563.17-1a(b)(2), Subchapter D, Chapter V, Title 12, Code of Federal Regulations.

Value for the 69 sold dwellings within the Valinda development and 62 sold dwellings within the Mirador development.

Mass Appraisal

When a tract or project is built-out and absorbed, the appraiser may use an aggregate value estimate based upon conservative per dwelling unit estimates. It is implicit in mass appraisal that some individual value conclusions will not meet standards of reasonableness, consistency and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, the value conclusions meet attainable standards of accuracy. The appraisers have used an average conservative value for the average size unit within each product in the District. By utilizing average value estimates, individual home values could be higher or lower, depending on unit size. However, on an overall basis, the value conclusions are reasonable and meet attainable standards of accuracy.

Fee Simple Estate²

Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government.

Fee Simple Estate Subject to Special Tax and Special Assessment Liens

Empirical evidence (and common sense) suggests that the selling prices of properties encumbered by such liens are discounted compared to properties free and clear of such liens. In new development projects, annual special tax and/or special assessment payments can be substantial, and prospective buyers take this added tax burden into account when formulating their bid prices. Taxes, including special taxes, are legally distinct from assessments.

The Minimum Market Values included herein, reflect the value potential buyers would consider given the special tax lien of Community Facilities District No. 2005-1.

Retail Value

Retail value should be estimated for all fully improved and sold properties. Retail value is an estimate of what an end user would pay for a finished property under the conditions requisite to a fair sale.

Blue-Top Graded Parcel

Blue-top graded parcel includes streets cut and padded lots with utilities stubbed to the parcel and perimeter streets completed.

² The Dictionary of Real Estate Appraisal, Third Edition, published by The Appraisal Institute, 1993, Page 140

Finished Site³

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include padded lot, streets and utilities to the lot, and all fees required to issue a building permit paid.)

Extraordinary Assumptions, Assumptions and Limiting Conditions

The analyses and opinions set forth in this report are subject to the following assumptions and limiting conditions:

Standards Rule ("S.R.") 2-1(c) of the "Standards of Professional Appraisal Practice" of the Appraisal Institute requires the appraisers to "clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects an appraisal analysis, opinion, or conclusion." In compliance with S.R. 2-1(c) and to assist the reader in interpreting the report, the following contingencies, assumptions and limiting conditions are set forth as follows:

Extraordinary Assumptions of the Appraisal

The opinions of value rely on the information provided by the District's Special Tax Consultant, which we have assumed to accurately identify the properties within CFD No. 2005-1. It is a specific assumption of this appraisal that the appraisers have been provided with a summary of all the parcels subject to special tax within the CFD.

The opinions of values expressed in this report do not apply to any specific dwelling unit.

Assumptions and Limiting Conditions

No responsibility is assumed by your appraisers for matters that are legal in nature. The appraisers are aware of past litigation concerning the subject property. It is a specific assumption and condition of this appraisal and estimated values, that there are no outstanding legal issues associated with Capistrano Unified School District's CFD No. 2005-1. No opinion of title is rendered, and the property is appraised as though free of all encumbrances and the title marketable. No survey of the boundaries of the property was undertaken by your appraisers. All areas and dimensions furnished to your appraisers are presumed to be correct.

³ Ibid, Page 334

The date of value for which the opinions of Minimum Market Value are expressed in this report is June 1, 2016. The reported Assessed Values are stated as of January 1, 2015. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

Maps, plats, and exhibits included herein are for illustration only, as an aid for the reader in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.

Oil, gas, mineral rights and subsurface rights were not considered in making this appraisal unless otherwise stated and is not a part of the appraisal, if any exist.

The appraisers were not provided a soil report for the District. However, as of the date of value, the 140 lots that include the Valinda and Mirador products were improved with completed dwelling units. Only the land proposed for the 15 custom lots is in a raw undeveloped condition. The proposed custom lot development is slated for future development. There are no current plans to develop that portion of the District at this time. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of Highest and Best Use.

The appraisers have been provided with one title report for a portion of the District. The report was dated May 2, 2016 and prepared by First American Title Company. The title policy shows the ownership as Rancho San Juan Development LLC and covers 17 lots within the Mirador development and the 15 proposed custom lots. Individual policies for the 131 sold dwelling units were not requested or provided. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the subject properties.

Information contained in this report has been gathered from sources which are believed to be reliable, and, where feasible, has been verified. No responsibility is assumed for the accuracy of information supplied by others.

Since earthquakes are common in the area, no responsibility is assumed for their possible affect on individual properties, unless detailed geologic reports are made available.

The appraisers have inspected as far as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representations are made as to these matters unless specifically considered in the report.

The appraisers assume no responsibility for economic or physical factors that may occur after the date of this appraisal. The appraisers, in rendering

these opinions, assume no responsibility for subsequent changes in management, tax laws, environmental regulations, economic, or physical factors that may or may not affect said conclusions or opinions.

No engineering survey, legal, or engineering analysis has been made by us of this property. It is assumed that the legal description and area computations furnished are reasonably accurate. However, it is recommended that an analysis be made for exact verification through appropriate professionals before demising, hypothecating, purchasing or lending occurs.

The appraisers have not been provided with plans or specifications for the existing dwellings within the District. For purposes of this appraisal, we have assumed that the quality of construction, functional utility, amenities and features will meet market demand for new product in the market area in which the subject is located. This is a specific assumption of the value estimate included in the report.

Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the appraisers become aware of such during the appraisers' inspection. The appraisers have no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraisers, however, are not qualified to test for such substances or conditions.

The presence of such substances such as asbestos, urea formaldehyde, foam insulation, or other hazardous substances or environmental conditions may affect the value of the property. The value estimated herein is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in the field of environmental impacts upon real estate if so desired.

The cost and availability of financing help determine the demand for and supply of real estate and therefore affect real estate values and prices. The transaction price of one property may differ from that of an identical property because financing arrangements vary.

The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

The forecasts of future events that influence the valuation process are predicated on the continuation of historic and current trends in the market.

The property appraised is assumed to be in full compliance with all applicable federal, state, and local environmental regulations and laws, and the property is in conformance with all applicable zoning and use ordinances/restrictions, unless otherwise stated.

The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect on the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible non-compliance with the requirements of the ADA in estimating the value of the property.

We shall not be required, by reason of this appraisal, to give testimony or to be in attendance in court or any governmental or other hearing with reference to the property without prior arrangements having first been made with the appraisers relative to such additional employment.

In the event the appraisers are subpoenaed for a deposition, judicial, or administrative proceeding, and are ordered to produce their appraisal report and files, the appraisers will immediately notify the client.

The appraisers will appear at the deposition, judicial, or administrative hearing with his/her appraisal report and files and will answer all questions unless the client provides the appraisers with legal counsel who then instructs them not to appear, instructs them not to produce certain documents, or instructs them not to answer certain questions. These instructions will be overridden by a court order which the appraisers will follow if legally required to do so. It shall be the responsibility of the client to obtain a protective order.

The appraisers have personally inspected the subject property; however, no opinion as to structural soundness of existing improvements or conformity to any applicable building code is made. The appraisers assume no responsibility for undisclosed structural deficiencies/conditions. No consideration has been given in this appraisal to personal property located on the premises; only the real estate has been considered unless otherwise specified.

James B. Harris is a Member of the Appraisal Institute. The Bylaws and Regulations of the Institute require each Member to control the uses and distribution of each appraisal report signed by such Member. Except as

hereinafter provided, possession of this report, or a copy of it, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraisers and in any event only with properly written qualification and only in its entirety. Capistrano Unified School District, its underwriter and legal counsel may publish this report in the Official Statement for this Community Facilities District.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media, public relations, news media or any other public means of communication without the prior consent and approval of the undersigned.

The acceptance of and/or use of this appraisal report by the client or any third party constitutes acceptance of the following conditions:

The liability of Harris Realty Appraisal and the appraisers responsible for this report is limited to the client only and to the fee actually received by the appraisers. Further, there is no accountability, obligation or liability to any third party. If the appraisal report is placed in the hands of anyone other than the client for whom this report was prepared, the client shall make such party and/or parties aware of all limiting conditions and assumptions of this assignment and related discussions. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at his own risk.

If the client or any third party brings legal action against Harris Realty Appraisal or the signer of this report and the appraisers prevail, the party initiating such legal action shall reimburse Harris Realty Appraisal and/or the appraisers for any and all costs of any nature, including attorneys' fees, incurred in their defense.

AREA DESCRIPTION

The following section of this report will summarize the major demographic and economic characteristics such as population, employment, income and other pertinent characteristics for Orange County, the City of San Juan Capistrano and the subject market area.

Orange County

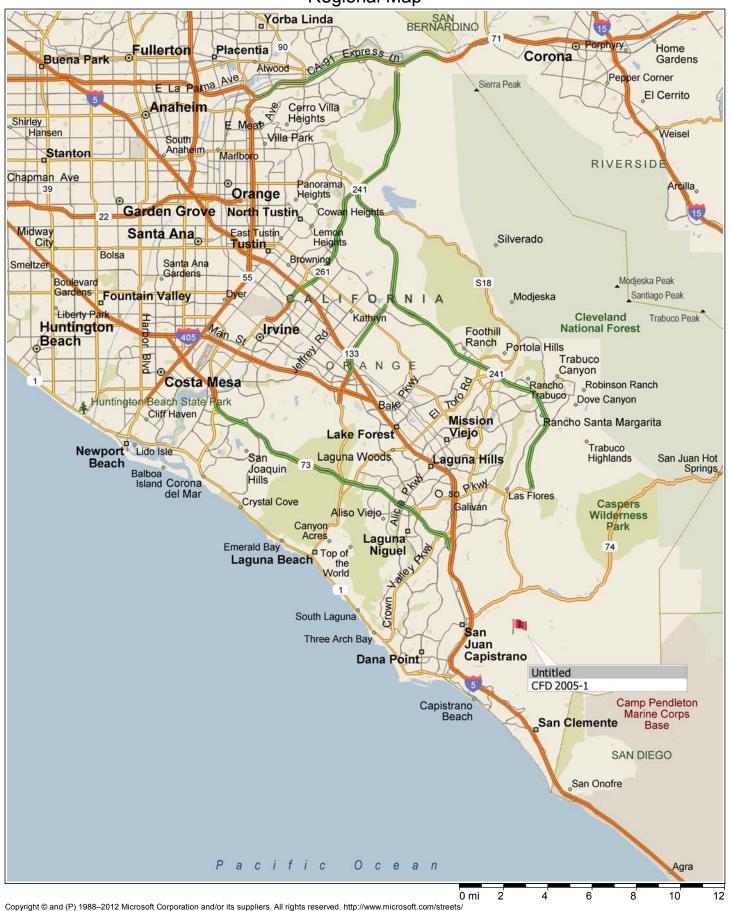
Orange County, California consists of 34 individual cities and numerous unincorporated communities. Orange County is bounded by the Pacific Ocean to the west, Los Angeles County to the north, Riverside County to the east, and San Diego County to the south. Orange County offers a wide variety of terrain from the Pacific Ocean beaches to foothill landscapes.

A strategic location and quality of life are the primary factors for Orange County's evolution from a rural, agricultural dominated economy, into a premier urbanized commercial center. Prior to 1959, the County was considered to be a bedroom community of Los Angeles County. During the 1950's and 1960's, improvements in the transportation network and economic growth in Los Angeles County gave rise to the suburbanization of Orange County. By the 1970's, the commercial and industrial development transformed Orange County into an urbanized commercial center. Today, despite the severe economic downturn of 1991-1996, the filing by the County of Orange for bankruptcy in December 1994, the 2001-2002 recession, and the recent national economic crash, Orange County remains one of the most economically vibrant and diverse components of the Southern California region and the United States.

Population

Orange County has added 1,250,000 new residents since 1980 as illustrated in the following table. The most recently released population data indicates that as of January 2016, the countywide population stood at 3,183,000 residents. Annual population gains from natural increase and immigration have ranged from 25,900 to 35,300 persons annually, over the last five years. The population changes represent annual changes of

Regional Map



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0.9% to 1.1%. The County population experienced a negative 4.1% adjustment in the year 2010. This was due to the U.S. Census. The U.S. Census actual counts were significantly less than the prior State of California projections. The County's population increased 5.6% from 2010 to 2016. The 2015 population finally exceeded the prior record high population of 3,139,000, which occurred in 2009.

Population Trends 1980-2016¹

		Average Annual Change		
Year	Population	Number	Percent	
1980	1,932,921	30 5 <u>00</u> 5	, , , , , , , , , , , , , , , , , , ,	
1990	2,410,668	47,775	2.5%	
2000	2,846,289	43,562	1.8%	
2001	2,880,200	33,911	1.2%	
2002	2,930,500	50,300	1.7%	
2003	2,978,800	48,300	1.6%	
2004	3,017,300	38,500	1.4%	
2005	3,047,000	29,700	1.0%	
2006	3,072,300	25,300	0.8%	
2007	3,098,100	25,800	0.8%	
2008	3,107,500	9,400	0.3%	
2009	3,139,000	31,500	1.0%	
2010	3,010,232	(128,768)	(4.1%)	
2011	3,029,900	19,668	0.6%	
2012	3,055,800	25,900	0.9%	
2013	3,081,800	26,000	0.9%	
2014	3,114,000	32,200	1.0%	
2015	3,147,700	33,700	1.1%	
2016	3,183,000	35,300	1.1%	

April 1, 1980, 1990, 2000, and 2010 all other years January 1. Source: California Department of Finance, U.S. Census 5/16

The high cost of housing in Orange County compared to other areas has slowed the number of people relocating to Orange County. The most recent decline in the Orange County economy began in 2007 and continued until mid-2012. This weakness was led by the decline in the residential real estate market. Both the sales rate and median dwelling prices declined over 40% from the peak of June 2007 to early 2009. As of April 2016, the median price increased over 74% from the lows of early 2009, and equals the record high price of June 2007. Over the last 12± months, the number of sales had declined 6.5% and the median price had increased 7.5%. Month-to-month changes show increases of approximately 3.0% for both sales and median sale price.

Employment

As of April 2016, Orange County had an unemployment rate of 3.9%, compared to the California rate of 5.2%. One year ago, in April 2015, the unemployment rate was 4.3%. The annual average rate for 2014 was 5.5%. This indicates a 9.3% decrease in the unemployment rate in one year and a 29.1% decrease in two years. From 1980 to 2000, the Orange County employment base expanded rapidly as the area became a financial and service center in the Southern California region. The following table illustrates the area's unemployment compared to California as of April 2016.

	Labor Force	Unemployment
California	19,015,100	5.2%
Orange County	1,604,100	3.9%

The most common measure of employment growth is the increase in nonagricultural wage and salary employment. Job growth in 2003 increased 25,300 jobs. During 2004, the total non-farm employment was 1,456,700, an increase of 1.9% or 27,700 jobs. In 2005, the increase in job growth was reported at 2.4% or an increase of 34,300 jobs. Job growth slowed to 1.9% in 2006 or 27,900 new jobs, for a record total of 1,518,900 jobs. In 2007, job growth declined 3,400 jobs to 1,515,500, or a negative 0.2%. In 2008, there was a decline of 34,000 jobs, or a negative 2.2% job growth. In 2009, job growth declined 109,500 jobs, or a negative 7.4% to 1,372,100 jobs. This was the largest annual decline in Orange County history. Job declines continued into 2010 when 5,400 jobs were lost, a negative 0.4%. The four year decline ended in 2011, when 15,700 jobs were added, an increase of 1.1% to 1,382,400 jobs. In 2012, 37,200 new jobs were added, a 2.7% increase to a total of 1,419,600 jobs. In 2013, 39,800 jobs were added, an increase of 2.8% to 1.459,400 jobs. During 2014 36,500 jobs were added, an increase of 2.5% to 1,495,900 jobs. During 2015 47,200 jobs were added, an increase of 3.2% to 1,542,700 jobs. The job losses between 2007 and 2010 wiped out about 11 years of job growth. The 2015 annual employment level is at a new record high level.

Employment Trends 1983-2015

7 K		Average Annual Change			
<u>Year</u>	Employment	Number	Percent		
1983	869,200	-			
1990	1,172,400	43,314	5.0%		
2000	1,388,900	21,600	1.8%		
2001	1,413,700	24,800	1.8%		
2002	1,403,700	(10,000)	(0.7%)		
2003	1,429,000	25,300	1.8%		
2004	1,456,700	27,700	1.9%		
2005	1,491,000	34,300	2.4%		
2006	1,518,900	27,900	1.9%		
2007	1,515,500	(3,400)	(0.2%)		
2008	1,481,600	(34,000)	(2.2%)		
2009	1,372,100	(109,500)	(7.4%)		
2010	1,366,700	(5,400)	(0.4%)		
2011	1,382,400	15,700	1.1%		
2012	1,419,600	37,200	2.7%		
2013	1,459,400	39,800	2.8%		
2014	1,495,900	36,500	2.5%		
2015	1,542,700	47,200	3.2%		

^{1 2014} benchmark

Source: Employment Development Department - 5/16

The ten largest employers in Orange County are shown below.

Orange County Ten Largest Employers

Company/Institution	No. of Employees
Walt Disney Co.	27,000
University of California, Irvine (UCI)	22,385
County of Orange	18,135
St. Joseph Health System (St. Joseph)	12,227
Kaiser Permanente	7,000
Boeing Co.	6,890
Walmart	6,000
Memorial Care Health System	5,650
Bank of America	5,500
Target	5,400

Source: Orange County CAFR, 2015

Income

The 2016 median household income in Orange County is estimated to be \$77,390. These figures are significantly above the Southern California region average. The higher income level is due to the higher percentage of financial, insurance, real estate, and business service employment which typically has higher wage scales.

Orange County
Household Income Distribution
2016

Income Range	Households	Percent 1/
Less than \$15,000	81,328	7.72%
\$15,000 - \$24,999	78,528	7.45%
\$25,000 - \$34,999	75,670	7.18%
\$35,000 - \$49,999	110,944	10.53%
\$50,000 - \$74,999	167,697	15.91%
\$75,000 - \$99,999	134,055	12.72%
\$100,000 - \$124,999	109,309	10.37%
\$125,000 - \$149,999	79,015	7.50%
\$150,000 - \$199,999	94,585	8.97%
\$200,000 - \$249,999	41,027	3.89%
\$250,000 - \$499,999	55,112	5.23%
\$500,000 or more	26,693	<u>2.53%</u>
Total	1,053,963	100.0%
Median Household Income		\$77,390
Average Household Income		\$106,499
1/ Percent of total distribution		235 F 1/

Source: Claritas 6/16

Over 51% of the county's households have annual income over \$75,000. This high income level, in part, provides the financial means to support the continued demand in the residential market.

Retail Sales

For Orange County, taxable retail sales increased from \$8.5 billion in 1980 to an estimated \$39± billion in 2006, prior to the 2007/2008 economic recession. Sales for 1999 and 2000 increased 10.4% and 10.9%, respectively, to \$27.49 billion. In 2001, the sales growth moderated to 3.8% or \$28.52 billion. For 2002, sales increased 4.0%, up to \$29.65 billion. During 2003, taxable retail sales totaled \$32.28 billion; an 8.9% increase. This increase continued through 2004 with retail sales at \$35.44 billion, a 9.8% increase. In 2005, the growth moderated to 6.3%, with sales at \$37.67 billion. In 2006, the growth further moderated to 3.7%, with sales at \$39.07 billion. In 2007, there was an actual decline to \$38.99 billion, a 0.2% decline. In 2008, sales again declined to \$35.77 billion, or a negative 8.3%. Declining sales worsened in 2009, declining 12.9% to \$31.16 billion. This was a bottom for retail sales in Orange County. In 2010 sales increased to \$32.55 billion, a 4.5% gain. In 2011, retail sales increased 9.3% to \$35,587,795,000. The 2012 retail sales

increased 7.8% to \$38,372,456. The 2013 sales increased 4.3% to \$40,024,929,000. The 2013 retail sales were at a record high level, finally exceeding the previous record high in 2006. Retail sales for the first three-quarters of 2014 increased 3.7% over the first three-quarters of 2013 to \$30,399,784,000. Annual retail sales for 2014 have not been reported.

Retail Sales Trends¹ 1985-2013

	Taxable Retail Sales	Average Annual Change Number		
<u>Year</u>	(000's)	(000's)	Percent	
1985	\$13,007,407	78 20 5		
1990	\$17,486,433	\$ 895,805	6.9%	
2000	\$27,485,000	\$ 999,857	5.7%	
2001	\$28,519,000	\$1,034,000	3.8%	
2002	\$29,646,818	\$1,127,848	4.0%	
2003	\$32,287,697	\$2,640,879	8.9%	
2004	\$35,441,953	\$3,163,256	9.8%	
2005	\$37,672,834	\$2,230,881	6.3%	
2006	\$39,074,451	\$1,401,617	3.7%	
2007	\$38,988,227	(\$ 86,224)	(0.2%)	
2008	\$35,768,595	(\$3,219,632)	(8.3%)	
2009	\$31,162,619	(\$4,605,976)	(12.9%)	
2010	\$32,552,107	\$1,384,488	4.5%	
2011	\$35,587,795	\$3,035,688	9.3%	
2012	\$38,372,456	\$2,784,661	7.8%	
2013	\$40,025,929	\$1,653,473	4.3%	

Retail stores, taxable retail sales total Source: State Board of Equalization

5/16

Real Estate

The following table shows Orange County in relation to the remaining Southern California counties for median price and number of dwellings sold.

Southern California Home Sales

	No. Sold – All Homes		Median Price – All Homes			
100	April	April	Pct.	April	April	Pct.
County	<u>2015</u>	<u>2016</u>	Chg.	<u>2015</u>	<u>2016</u>	Chg.
Los Angeles	7,137	6,976	-2.3%	\$484,750	\$520,000	7.3%
Orange County	3,514	3,285	-6.5%	\$600,000	\$645,000	7.5%
Riverside	3,697	3,632	-1.8%	\$310.000	\$330,000	6.5%
San Bernardino	2,568	2,494	-2.9%	\$254,000	\$270,000	6.3%
San Diego	4,049	3,980	-1.7%	\$455,000	\$489,000	7.5%
Ventura	1,055	945	-10.4%	\$480,000	\$530,000	10.4%
Southern California	22,020	21,312	-3.2%	\$429,000	\$458,000	6.8%

Source: CoreLogic

5/16

During the period from 1988 through 1989, housing values appreciated at rates approaching an average of 15% per annum throughout much of Orange County and Southern California. During the period from 1990 through 1993 as the economic recession influenced all segments of potential homebuyers, the rate of house price changes fell dramatically with decreases of approximately 4% to 6% per annum. During 1996 home prices stabilized, and most new subdivisions experienced significant price increases from 1997 to mid-2005 with annual double digit appreciation. Over the subsequent 6± years sales prices significantly decreased. However, over the last 3± years, sales prices have increased on a year over year basis in almost every month. The April 2016 sales were the highest April sales in three years. The change in sales was up 4.2% from March 2016 and down 3.2% from April 2015. However, the April sales were 10.5% below the April average of 23,801 since 1988. The region's median sale price gains have been in single digits over the last 24 months, following 22 months of double-digit increases. Southern California's April median sale price was 9.3% below the peak median price of \$505,000 reached in July 2007.

In all, 3,285 homes in the County sold in April 2016, which is a decrease of 6.5% from April 2015 (Southern California had a decrease in sales of 3.2%). The County's April 2016 median price of \$645,000 is up 3.2% from March 2016. Over the past year, the median sales price increased 7.5%, according to CoreLogic. This is a vast improvement from the 20% to 25% annual declines on a monthly basis in 2007 and 2008. The April 2016 median price of \$645,000 equals the peak price of \$645,000 in June 2007, and over 74% higher than the January 2009 cyclical low median price of \$370,000. Due to the rebounding strength in the new home market, the issuance of new home building permits in the County in 2012 was 70%± higher than the average number of permits issued over the previous five years. During 2013, single-family building permits increased to 3,783 from the 2012 total of 2,846 permits, about 33%. During 2014, single-family building declined 7.0% to 3,519 permits. Building permits for 2015 totaled 3,523, up 0.1% from 2014.

City of San Juan Capistrano

The City of San Juan Capistrano is located in south Orange County. It was incorporated in April 1961 and has grown from a small community of approximately 10,000 persons in 1974 to a developed City of 36,085 persons in 2016. The City has not experienced growth since the 2005 population of 36,078. The City provides a variety of land uses including open space, recreation, housing, jobs, shopping and services. Almost 40% of the City is in open space and park land. Only about 10% of the land suitable for development still remains vacant.

The City consists of 14.3 square miles and is located approximately 23 miles southeast of downtown Santa Ana and is bisected by Interstate 5. The San Diego Freeway (I-5) extends northwest to Los Angeles and further to Ventura County and central California. To the south, it provides access to San Diego and the international border with Mexico. The City is bounded by the City of Laguna Niguel to the west, the cities of Dana Point and San Clemente to the south and unincorporated County to the west and north and a portion of the City of Mission Viejo to the northwest. The community of Ladera Ranch is located to the north. The new residential development of The Ranch by Rancho Mission Viejo is located to the northeast of San Juan Capistrano. Please refer to the next page for a neighborhood map.

Population

As of the 2010 Census, the City had a population of 34,593 persons. The 2016 estimated population is 36,085 persons. Based on remaining residential land for development, the City has reached approximately 90% of its maximum population.

Income Level

For 2016 the City has an income distribution relatively similar to the countywide distribution. The median household income for San Juan Capistrano is \$81,831, and the County's median household income is \$77,390 according to the Claritas report dated June 2016 for the County and June 2016 for the City. An indicated in the table below, approximately 50% of the City's households have annual income over \$75,000.

City of San Juan Capistrano
Household Income Distribution 2015

Income Range	Households	<u>Percent</u>
Less than \$15,000	1,131	9.34%
\$15,000 - \$24,999	958	7.91%
\$25,000 - \$34,999	984	8.12%
\$35,000 - \$49,999	1,092	8.93%
\$50,000 - \$74,999	2,000	16.51%
\$75,000 - \$99,999	1,309	10.81%
\$100,000 - \$129,999	1,161	9.59%
\$125,000 - \$149,999	857	7.08%
\$150,000 - \$199,999	1,092	8.77%
\$200,000 - \$249,000	419	3.46%
\$250,000 - \$499,999	780	6.44%
\$500,000 or more	<u>369</u>	3.05%
Total	12,152	100.0%
Median Household Income		\$73,763
Average Household Income		\$108,622

Source: Claritas

6/16

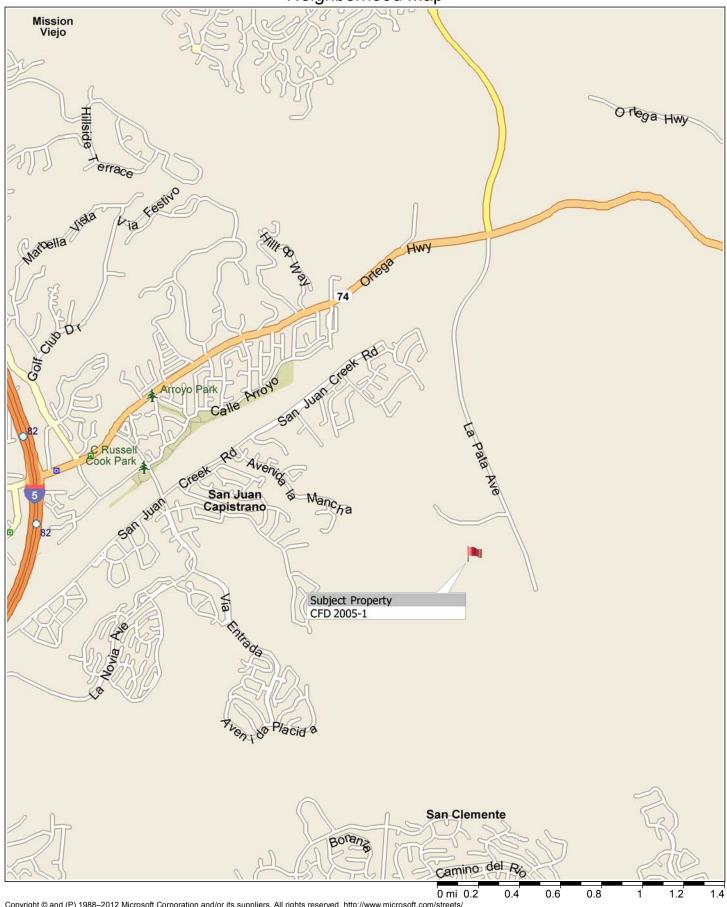
Retail Sales

In 2011, the City generated retail sales of \$570,878,000 or 1.6% of the County's total retail sales. For 2012, retail sales increased 0.2% to \$572,045,000. In 2013, retail sales increased 3.7% to \$593,045,000. Annual sales for the first three quarters of 2014 are estimated at \$439,050,000 which if annualized would indicate a decrease of approximately 0.6%.

Employment

As of April 2016, the City had an employment level of 17,600 persons. The unemployment rate for the City was 4.3%, which was 0.4% higher than the County as of April 2016. The top ten private employers in the City are shown on the following table. The information is from the City of San Juan Capistrano.

Neighborhood Map



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Certain mapping and direction data © 2012 NAVTEQ. All rights reserved. The Data for areas of Canada includes information taken with permission from Canadian authorities, including: ©
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Publications Corp. All rights reserved.

City of San Juan Capistrano Principal Employers 2014	
	No. of
<u>Employer</u>	Employees
St. Margret's of Scotland School	429
Costco Wholesale.	247
24 Hour Fitness	225
Emeritus at San Juan Capistrano	154
Color Spot Nurseries	135
Fluidmaster	130
Junipero Serra Catholic High School	124
Marbella Country Club	106
San Juan Hills Golf Club	95
Capistrano Toyota	91

Transportation

The City has good freeway access provided by Interstate 5 (San Diego Freeway), the major north/south freeway in California, via Ortega Highway. Interstate 5 traverses the State from the international Mexican border to the south to the State of Oregon and further north. The freeway merges with Interstate 405 at a major interchange situated about six miles north of the City. Both freeways intersect with State Highway 55 (Costa Mesa Freeway) to the west and northwest. From there, the Costa Mesa Freeway extends north to State Highway 91 (Riverside Freeway) providing access into Riverside and San Bernardino counties and west into Los Angeles County. The Costa Mesa Freeway continues southwest to the cities of Costa Mesa and Newport Beach.

Also available are the toll roads (the San Joaquin Transportation Corridor and the Foothill Transportation Corridor). The San Joaquin Transportation Corridor merges with I-5 at the north edge of the City limits between the cities of Laguna Niguel and Mission Viejo. The Foothill Transportation Corridor runs from the Riverside Freeway near Anaheim to Oso Parkway approximately three miles to the northeast of the north City limits.

Conclusions of Area Analysis

The strength of the economy for Orange County is evident in the relatively stable employment and, correspondingly, population of the County. While employment has

increased over the last year, population figures have shown continued growth and local unemployment has consistently been below the national and state averages. The rebound from the previous recession had shown significant gains in population and employment numbers. Most economists predict a continuation of expansion, as the impact from the recent recession is over.

The local economy previously experienced economic decline from 2008 into 2012, due largely to the national and state recessions. However, beginning in mid-2012 the markets stabilized and home prices have increased. Inflation is reported to remain low, which should keep mortgage rates from rising too steeply while the economy gains strength.

Nationally, the economy has rebounded from the recession lows. As of June 1, 2016 the Dow Jones Industrial Average (DJIA) was at a level of 17,835±. The S&P 500 is near historical highs, near 2,100.

Orange County has experienced an increase of 7.5%± in median home price from a year ago. The median home price in Orange County was \$645,000 in April 2016. Home prices continue to increase; however, the percentage change is moderating on a year-over-year basis. The year over year change in the sales rate have moderated over the last year, but are expected to increase through summer of 2016.

The City provides good schools and community amenities, which are desirable characteristics for families as well as young and established professionals. Local growth provides an economic and employment base for retail and service businesses. As the economy and housing market continues to recover from the past recession, a return to more normal growth should continue. The industrial and retail development of Orange County has generated strong interest in the area.

SITE ANALYSIS

General and Location

The subject property of this appraisal is identified as the property subject to Special Tax within CFD No. 2005-1. The District consists of one final tract map proposed for 155 dwelling units in the City of San Juan Capistrano. The City is bounded by the City of Laguna Niguel to the west, the cities of Dana Point and San Clemente to the south and unincorporated County to the west and north and a portion of the City of Mission Viejo to the northwest. The community of Ladera Ranch is located to the north. The new residential development of Rancho Mission Viejo is located to the northeast of San Juan Capistrano. CFD No. 2005-1 is located at the east end of the City, approximately 1 1/2 miles south of Ortega Highway, west of La Pata Avenue. To the northeast of the District is the La Pata Green Waste Facility. San Juan Hills High School is located north of the District on Vista Montana. In general undeveloped land surrounds the District. An existing single family detached community is located to the west of the proposed custom lots.

According to the Community Facilities District Report dated June 9, 2011, prepared by David Taussig & Associates, Inc., the District consists of 272 gross acres of which 60 acres are expected to be developed into uses subject to Special Tax. The District is proposed for a total of 155 single family detached dwellings. The District is further identified as Lots 1 through 155 of Final Tract Map No. 16634. As previously discussed, according to the District's Special Tax Consultant, Lot 53 of Tract 16634 had their Special Tax paid in full as of the date of value. Therefore, Lot 53 of Tract 16634 is not subject to Special Tax and is not a part of this appraisal assignment or valuation. Please refer to Page 4 for a boundary map of the District.

Current Site Condition

Site condition for CFD No. 2005-1 includes land from a raw condition to completed, sold and occupied dwelling units. Please refer to Page 5 for a summary of the condition of the land as of the date of value. Development of the District is proposed for two single family detached home products known as Valinda and Mirador, and future development of 15 custom lots. As indicated on Page 5, within the Valinda product, all of the 70 dwellings

have sold to individual homeowners. The Mirador product is nearing sell-out. Of the 70 total dwelling units within Mirador, 62 have closed escrow to individual homeowners. There are four model homes that are complete but unsold. In addition, there are two production homes that are in escrow and two production homes that are available for sale. The land proposed for 15 custom lots is in a raw undeveloped site condition.

Size and Shape

The District consists of one parcel consisting of 272± gross acres according to the District's CFD report, of which 60 acres are expected to be developed into uses subject to Special Tax. CFD No. 2005-1 is irregular in shape.

The District is proposed for a total of 155 single family detached dwellings. Of the 155 lots, 140 lots have a minimum size of 10,000 square feet and are generally rectangular in shape. The Valinda product has lots that range from 10,000 square feet to 44,866 square feet, with an average lot size of 15,473 square feet. Pad sizes range from 7,966 square feet to 16,855 square feet. The Mirador product has lot sizes ranging from 11,500 square feet to 29,445 square feet, with an average lot size of 14,578 square feet. The 15 proposed custom lots have proposed lots ranging from 30,056 square feet to 45,825 square feet. The average lot size for the custom lots is 33,527 square feet.

Soils and Geology

The appraisers were not provided a soil report for the District. However, as of the date of value, the 140 lots that include the Valinda and Mirador products were improved to completed dwelling units. Only the land proposed for the 15 custom lots is in a raw undeveloped condition. The proposed custom lot development is slated for future development. There are no current plans to develop that portion of the District at this time. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of Highest and Best Use.

Topography and Drainage

The District has rolling to steep topography. Drainage is via natural sheet flow and percolation. There are storm drains serving the 140 lots of the subject property. Storm drain capacity for the subject was constructed during the site development process. During our inspection of the site, we did not observe any drainage problems. The proposed custom lots are currently in a raw undeveloped land condition situated on hillsides.

Zoning

CFD No. 2005-1, Whispering Hills, is designated as Planned Community (PC), Very Low Density Residential and General Open Space in the City's General Plan. The Very Low Density Residential allows for a maximum density of one dwelling unit per acre. The residential development of the District, proposed for 155 dwelling units, equates to approximately .5 du/acre, which is within the maximum General Plan density of one unit per acre. The Open Space designation was assigned to the SDG&E transmission line right-of-way extending diagonally through the property. The two ridgelines on the site are designated Major Ridgelines, to be preserved in Open Space per the Conservation and Open Space Element. The ridgelines are situated between the 140 lots of Valinda and Mirador and the 15 proposed custom lots.

A Comprehensive Development Plan was required to be integrated into the PC zoning in order to establish permitted land uses and development standards on a PC-designated property. The Comprehensive Development Plan allows for the land uses consistent with those proposed and existing within Tract Map 16634. The maximum development of 155 dwelling units includes 15 dwelling units in the west canyon area, on minimum 30,000 square foot lots and the remaining 140 units in the east canyon area on minimum 10,000 square foot lots. The subject property is in conformance with all zoning requirements, and is assumed to be in conformance with all governmental regulations.

Access and Circulation

The City has good freeway access provided by Interstate 5 (San Diego Freeway), the major north/south freeway in California, via Ortega Highway. The City is bisected by Interstate 5. The San Diego Freeway (I-5) extends northwest to Los Angeles and further to Ventura County and central California. To the south, it provides access to San Diego and the international border with Mexico. The freeway merges with Interstate 405 at a major interchange situated about six miles north of the City. Both freeways intersect with State Highway 55 (Costa Mesa Freeway) to the west and northwest. From there, the Costa Mesa Freeway extends north to State Highway 91 (Riverside Freeway) providing access into Riverside and San Bernardino counties and west into Los Angeles County. The Costa Mesa Freeway continues southwest to Costa Mesa and Newport Beach.

Also available are the toll roads (the San Joaquin Transportation Corridor and the Foothill Transportation Corridor). The San Joaquin Transportation Corridor merges with I-5 at the north edge of the City limits between the cities of Laguna Niguel and Mission Viejo. The Foothill Transportation Corridor runs from the Riverside Freeway near Anaheim to Oso Parkway approximately three miles to the northeast of the north City limits.

The Valinda product has ingress and egress via Vista Montana. Vista Montana connects with La Pata Avenue to the east, which connects with Ortega Highway to the north. The Mirador product has ingress and egress from Via Granada which connects with Vista Montana. Individual lots of both developments are accessed by several culde-sac streets. Interior streets are improved with one lane in each direction with paving, concrete curbs and gutters, sidewalks and street lights.

Amtrack stops in San Juan Capistrano and John Wayne Airport is situated approximately 13 miles from the District. Los Angeles International Airport is situated approximately 60 miles north of the District. Long Beach Harbor/Port of Los Angeles is located approximately 40 miles north.

Easements

The appraisers have been provided with one title report for a portion of the District. The report was dated May 2, 2016 and prepared by First American Title Company. The title policy shows the ownership in Rancho San Juan Development LLC and covers 17 lots within the Mirador development and the 15 proposed custom lots. Individual policies for the 131 sold dwelling units were not requested or provided. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the subject properties.

Utilities

The subject property is served by the following companies/agencies:

Electricity San Diego Gas & Electric

Water San Juan Capistrano Water Dept.

Gas San Diego Gas & Electric

Sewer South Orange County Wastewater Authority

Telephone AT&T

Police Orange County Sheriff's Dept. Fire Orange County Fire Dept.

Earthquake, Flood Hazards, and Nuisances

The subject property, as of the date of valuation, was not located in a designated Earthquake Study Zone as determined by the State Geologist. However, all of Southern California is subject to seismic activity.

The subject property is located in a Zone "X" flood designated area according to Federal Emergency Management Agency Community Panel No. 06059C0526J, dated December 3, 2009. This designation references an area of minimal flooding, which is outside the 500-year flood plain. Flood insurance is not required. No other nuisances or hazards were observed on physical inspection of the subject properties as of the date of value.

Environmental Issues/Toxic Hazards

The appraisers have not received a site assessment report or EIR for the subject property. According to the City's web site, a Final Environmental Impact Report for a more intensive but similar development project covering the subject property was adopted by Resolution No. 02-05-21-07 on May 21, 2002. Subsequently on July 20, 2004, the City Council adopted Resolution No. 04-07-20-01 certifying an Addendum to the EIR and approving Vesting Tentative Tract Map 16634 for a subdivision with 155 single-family residential lots plus open space lots. Of the 155 proposed lots/dwellings within Tract 16634, 140 lots have been graded to finished lot condition and improved with dwellings. Only the land proposed for 15 custom lots remains in a raw condition. The property is reportedly not impacted by any negative environmental issues.

Physical inspection of the District did not indicate evidence of hazardous materials and/or toxic waste. However, your appraisers are not considered experts in the field and are not qualified to detect such materials. It is a specific assumption of this appraisal that the soil is suitable for the existing and proposed uses and no evidence of hazardous materials exist.

The La Pata Green Waste Facility is situated to the northeast of the Valinda project at the corner of La Pata Avenue and Vista Montana. There are four SDG&E high tension power lines extending diagonally through the property. The Open Space designation was assigned to the SDG&E transmission line right-of-way. The two ridgelines on the site are designated Major Ridgelines, to be preserved in Open Space per the Conservation and Open Space Element.

Taxes and Special Taxes

Pursuant to Proposition 13, passed in California in 1978, current Assessed Values may or may not have any direct relationship to current Market Value. Real estate tax increases are limited according to Proposition 13 to a maximum of 2% per year plus bonds, if any. If the property is sold, real estate taxes are normally subject to modification to the then current Market Value. The subject property falls within the taxing jurisdiction of

the Orange County Assessor's office. The applicable tax rate area is 23-081. The published annual tax rate in this area is 1.05480%.

Depending on house size, the FY 2016/2017 Special Tax per dwelling unit is estimated to range from \$6,837.93 to \$9,518.64. The total overall tax rate is estimated from 1.75% to 2.00% of value. This is common in the market area, where new product subject to CFD special taxes, has been built over the past 25± years. A survey of the subject's market area revealed that special Assessment Districts or CFDs encumber most of the competing residential subdivisions.

For the 2015/2016 Tax Year, the total Assessed Value for CFD No. 2005-1, is reported to be \$97,596,045. Please refer to the table in the Addenda that lists the Fiscal Year 2015/2016 Assessed Values for CFD No. 2005-1 as provided by the District's Special Tax Consultant.

According to public records the total property tax for the 154 lots subject to Special Tax is \$1,951,130. The District's Special Tax consultant reports five parcels have delinquent tax as of May 20, 2016. All of the delinquent parcels are under the ownership of Rancho San Juan Development LLC. It is a specific assumption and condition of this appraisal report that all of the property taxes due are paid in full and that there are no delinquencies within the District.

IMPROVEMENT DESCRIPTION

General

CFD No. 2005-1, is proposed for a total development of 155 dwellings within three products. Two products are similar in functionality and size and situated on lots with minimum sizes of 10,000 square feet. In total 140 of the 155 dwellings are built within these two products. The Valinda and Mirador products are built by Woodbridge Pacific Homes. The third product is a proposed 15 custom lot development on 30,000 square foot minimum lots. As previously discussed, according to the District's Special Tax Consultant, Lot 53 of Tract 16634 had their Special Tax paid in full as of the date of value. Therefore, Lot 53 of Tract 16634 is not subject to Special Tax and is not a part of this appraisal assignment or valuation. Lot 53 is in the Valinda product.

The Valinda product is built out and has sold and closed escrow on all of the 70 dwelling units, as of the date of value. The development opened for sale in May, 2012 and sold out in March 2014.

The Mirador product is nearing sell-out. Of the 70 dwelling units within Mirador, 62 have closed escrow to individual homeowners. There are four model homes that are complete but unsold. In addition, there are two production homes that are in escrow and two production homes that are available for sale. The Mirador product opened for sales in mid-October, 2013.

The land proposed for the 15 custom lots is in a raw condition. The appraisers have requested information on proposed development of the raw land. As of the date of this report no information has been provided. It is an assumption of this appraisal that the current plans are to hold for future development.

The appraisers have not been provided with specifications for the existing or proposed improvements within CFD No. 2005-1. The appraisers were provided with floor plans and a sales brochure for the Valinda and Mirador products. The Valinda product is the smaller of the two developments offering homes from 2,804 square feet to 3,817

square feet. The smallest plan is a one-story dwelling unit and the three larger floor plans are two-story. Plans 1, 2 and 4 include four-car garages and Plan 3 includes a three-car garage. The base sales prices for Plans 2, 3 & 4 of the Valinda product are for the final phase of development which was released in June 2013. The most recent base sales price for Plan 1 was in the prior phase of development which was released in January 2013. The Mirador product includes five floor plans ranging from 3,769 square feet to 4,984 square feet. Each floor plan is two-story and includes a four-car garage. In addition, the Mirador product offers an optional "Casita" which ranges from 379 square feet to 574 square feet. The following table includes the home size of the dwelling unit without the "Casita" square footage. The pricing for the Mirador product is as of May 2016. The typical incentives at Mirador are \$60,000. The four model homes are expected to offer incentives of \$85,000. The model homes have a typical lot premiums of \$120,000 and \$135,000 and reported options between \$245,000 and \$400,000.

	CFI	D No. 2005-	1		
Product Name	Minimum Lot Size	Home <u>Size</u>	Bdrm/ Bath	Base S/P	\$/SF
Valinda	10,000	2,804	4/3.5	\$739,000	\$263.55
(pricing as of June 2013)		3,321	5 / 4.5	\$873,000	\$262.87
		3,666	5 / 4.5	\$959,000	\$261.59
		3,817	5 / 4.5	\$956,000	\$250.46
Mirador	11,500	3,769	4 / 3.5	\$1,130,000	\$299.81
(pricing as of May 2016)		4,071	5 / 5.5	\$1,102,000	\$270.70
		4,014	5 / 5.5	\$1,111,000	\$276.78
		4,456	5 /5	\$1,247,000	\$279.85
		4,984	5 / 5.5	\$1,260,000	\$252.81

The following list is of some of the construction specifications for the detached single-family homes of the Valinda and Mirador products. For purposes of this appraisal, we have assumed that the quality of construction, functional utility, amenities and features are similar to currently selling projects and meet market demand for product in the subject's market area.

Construction

Units are of Class "D" construction; wood frame and stucco siding with several elevation choices.

Foundations

Foundations are poured concrete. Particle board over wood floor joists for the second floor.

Structural Frame

Consists of 2" x 4" and 2" x 6" wood framing.

Roofs

Roofs are of concrete tile.

Windows

Vinyl dual glazed windows.

Floor Covering

Floor coverings are wall-to-wall carpet in all living areas. Entries are of ceramic tile.

Interior Finish

Custom trowelled ceiling and painted drywall.

Heating/HVAC

Dual-zoned central air conditioning and gas forced air heating.

Kitchens

Kitchens will be equipped with natural maple wood Euro-styled frameless cabinetry, and granite countertops. Each kitchen will include Kitchen Aid appliances in stainless steel that include 48" dual fuel professional range, electric self-cleaning oven, dishwasher, 27" built-in microwave and Sterling stainless steel sink.

Bathrooms

Bathrooms will have double sinks with ceramic tile countertops, and tile surround in shower and tub.

Garage

Garage doors are three and four car sectional steel roll-up with concrete driveways.

Fireplace

One fireplace per dwelling.

Laundry Facilities

Interior laundry areas.

Exterior

Side and rear yard fencing.

Options

Numerous options and upgrades are available including flooring, cabinet, appliance package and countertop upgrades. Most options and upgrades provided at competing, similar quality developments were offered.

Functional Utility

It is an assumption of this appraisal that all of the floor plans are functional, and competitive with current design standards.

Remaining Economic Life

The total/remaining economic life, according to the Marshall Valuation Service, is considered to be 50 years from date of completion.

Homeowners Association

The homeowner's association dues are reported to be \$357.00 per month for the Valinda and Mirador products. The HOA will be responsible for maintaining all of the common areas within the Association Property including all recreation facilities, streets, landscaping and open space lots.

Conclusion of the Improvements

Based on the review of the product information and physical inspection of the Valinda and Mirador models, we are of the opinion that the quality of the products are good and will generally meet buyer expectations for the subject's marketplace.



HIGHEST AND BEST USE

The term *highest and best use* is an appraisal concept that has been defined as follows:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially 9feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. ⁴

The determination of highest and best use, therefore, requires a separate analysis for the land as legally permitted, as if vacant. Next, the highest and best use of the property with its improvements must be analyzed to consider any deviation of the existing improvements from the ideal. "The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be: legally permissible, physically possible, financially feasible, and maximally productive. These criteria are often considered sequentially." The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

Legally Permissible Use

The legal factors affecting the site and its potential uses are often the most restrictive. These would typically be government regulations such as zoning and building codes.

The subject property is located in the City of San Juan Capistrano in Orange County. CFD No. 2005-1, Whispering Hills, is designated as Planned Community, Very Low Density Residential and General Open Space in the City's General Plan. The Very Low Density Residential allows for a maximum density of one dwelling unit per acre. The residential development of the District, proposed for 155 dwelling units, equates to approximately .5 du/acre, which is within the maximum General Plan density of one unit

⁴ The Dictionary of Real Estate Appraisal, 4th Edition, Pub. by the Appraisal Institute, Chicago, IL., P. 135.

⁵ The Appraisal of Real Estate, 10th Edition, Pub. By the Appraisal Institute, Chicago, IL., P. 280.

per acre. The Open Space designation was assigned to the SDG&E transmission line right-of-way extending diagonally through the property. The two ridgelines on the site are designated Major Ridgelines, to be preserved in Open Space per the Conservation and Open Space Element. The ridgelines are situated between the developments of Valinda and Mirador and the proposed custom lots. The District has a recorded Final Tract Map No. 16654 for 155 lots/dwelling units. The existing and proposed uses are considered a legal and conforming use.

Physically Possible Use

CFD No. 2005-1 is located at the east end of the City of San Juan Capistrano. The City is bounded by the City of Laguna Niguel to the west, the cities of Dana Point and San Clemente to the south and unincorporated County to the west and north and a portion of the City of Mission Viejo to the northwest. The community of Ladera Ranch, which is the most recent built-out large scale master planned community in south Orange County, is located to the north. The residential development of Rancho Mission Viejo is located to the northeast of San Juan Capistrano. The first community, known as Sendero is nearly sold out. The second community, known as Esencia, is in the initial stages of development.

The District consists of 272 gross acres that are proposed for a total of 155 single family detached dwellings within Final Tract Map No. 16634. The topography consists of rolling to steep hillsides which offer views of the surrounding area.

The District is bounded by vacant land and an existing subdivision. This development is a natural extension of existing nearby residential development, located in the City of San Juan Capistrano.

All normal utilities are available to serve the subject site. As of the date of inspection, 131 dwellings are built and sold to individual homeowners. In addition, 2 built production dwellings are in escrow and 2 built production dwellings are available. The four model homes for Mirador are also available for sale.

The land proposed for the 15 custom lots is in a raw condition. No information has been provided for the raw land. It is assumed that the current plans are to hold to future development.

Access to the District is considered to be adequate via La Pata Avenue and Ortega Highway. The City has good freeway access provided by Interstate 5 (San Diego Freeway), the major north/south freeway in California, via Ortega Highway. Also available are the toll roads (the San Joaquin Transportation Corridor and the Foothill Transportation Corridor). The San Joaquin Transportation Corridor merges with I-5 at the north edge of the City limits between the cities of Laguna Niguel and Mission Viejo. The Foothill Transportation Corridor runs from the Riverside Freeway near Anaheim to Oso Parkway approximately three miles to the northeast of the north City limits.

Based on the physical analysis, the subject property appears to be viable for numerous types of development based on its size and topography. However, the site's location would suggest the lands have a primary use of residential development due to its location and improvements.

Financial Feasibility and Market Conditions

The financial feasibility of the development of the subject property is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation sections of this report, which give support to the financial feasibility of the existing dwelling units within CFD No. 2005-1.

The attractiveness of residential development anywhere in Orange County is evidenced by market activity which has taken place over the last 30 years. The current condition of the housing market is that there has been a significant increase in demand over the past 4± years, which has positively impacted price. The decline in sales and prices between the end of 2005 through 2011 has ended. There was a slight increase in the median Orange County home price between July 2011 and July 2012 of almost 3%. However, the following 12 month period to mid-2013 showed the median price increased

almost 20%. From July 2013 to July 2014, the price increase moderated to 8.4%. The April 2016 median price is 7.5% higher than the April 2015 median price. The April 2016 median price of \$645,000 equals the June 2007 peak of \$645,000. It appears that the upward pressure on price due to demand outpacing supply could be moderating. Over the past 12 months, sales decreased by 6.5%, from 3,514 sales in April 2015 to 3,285 sales in April 2016. The April 2016 median home price increased 7.5% from \$600,000 to \$645,000 over the 12 month time frame. This is the highest April median price since 2007.

As of late-April 2016, there were only 6,267 existing and new homes for sale in Orange County. This is 163 more homes on the market than the April 2015 inventory and 32% below the 12-year average of 9,238 dwellings in the inventory. Absorption of all homes currently on the market is estimated at 60 days, much lower than the typical four to six month absorption going back to 2004. The current inventory, albeit about two-thirds of the average between 2005 and 2016, supports a much more sustainable market than what was seen one to two years ago.

According to the Metrostudy report dated fourth quarter of 2015, homebuilders sold 951 new homes in the Orange County market, which represents an 18.4% decrease from the new home sales one year ago. This represents a 25.5% decrease for detached homes, while the attached new home closings decreased by 0.6%. On an annual rolling 12-month basis, for all of 2015, new detached home closings in Orange County are down 14.4% from 2014.

The median sale price of all new homes closed during the fourth quarter of 2015 was at \$881,200, an increase of 8.3%± from the fourth quarter of 2014. The detached median sale price increased 13.8% to \$1,088,000, while the attached median sale price increased 8.0% to \$587,500 over the past 12 months.

According to Metrostudy, at the end of Q4 2015 there were 115 active detached subdivisions in the Orange County market, representing an increase of 8 subdivisions from one year ago. At the end of Q4 2015, there were 2,199 available detached units, which include model homes, completed dwellings and dwellings in various stages of

construction. Based on the most recent closing data, this represents a 10.3 month supply of inventory of dwellings. According to Metrostudy there are 2,824 finished lots in the County which represents an 11.0 month supply of finished lots.

Orange – South Coastal Submarket

The South Coastal submarket, of which the District is a part, includes the cities and communities of Aliso Viejo, Dana Point, Laguna Niguel, Laguna Beach, Laguna Hills, San Clemente and San Juan Capistrano. The South Coastal submarket region accounted for 18 detached sales during the fourth quarter of 2015, or a 2.9% market share of the Orange County detached market. This sales rate is down 58.1% from the fourth quarter 2015 sales rate. Another indication of the declining market is that for the fourth quarter of 2015, the South Coastal submarket had average monthly sales per product of 4.5 units. In the fourth quarter of 2014, the average sales rate per project was 6.9 units per month. Over all of 2015, the South Coastal submarket reported 137 closings compared to 115 for the 12 months ending December 2014, a 19.1% increase. The rolling 12-month closing rate per subdivision was at 8.2 units per year in Q4 2014 increasing to 10.5 units per year in Q4 2015, representing a 28.3% increases.

The median sales price in the South Coastal submarket has increased 18.3% from \$826,100 in Q4 2014 to \$977,300 in Q4 2015. The median unit size has increased 53.8% from 2,719 square feet to 4,182 square feet in Q4 2015. The median price per square foot for a detached dwelling increased from \$348 to \$359 over the past 12 months. This is one of the lower prices per square foot submarkets in Orange County. The North Submarket is the lowest at \$336 per square foot for a detached dwelling.

During the fourth quarter of 2015, the subject's submarket sold no detached homes priced under \$799,999; 18 homes priced over \$800,000 were sold. There were 5 attached units that sold in the subject's submarket all priced over \$800,000.

Within the South Coastal submarket there are 11 active detached projects, which is three less than Q4 2014. The subject's market area reports two unsold standing (built, but unsold) inventory units and 112 unsold units under construction. This is a 10.0±

month absorption time for the completed dwellings and units under construction. Total inventory which includes units built, under construction and model homes totals 133 units which equates to a 11.6 month supply at the current sales rate. One year ago total inventory was at 104 units, and the absorption time based on last year's sales rate was 10.9 months. Both total inventory and absorption time have increased over the last year.

According to an interest rate survey published weekly in the Orange County Register, the typical 30-year, fixed rate conforming loan is around 3.6%± as of the date of this report. Mortgage rates have been in the 3.5% to 3.8%± range over the past month. Six months previously, rates were in the 3.5% to 4.0% range. While a slight increase in rates may impact demand, we do not anticipate a significant drop in demand, due to the interest rate increases, as long as rates remain near the current level. The current level of interest rates, along with stable to moderately increases in sales prices, should continue to sustain sales activity, for qualified buyers.

Feasibility

The financial feasibility of the development of the subject property is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation section of this report, which gives support to the financial feasibility of the existing dwelling units within CFD No. 2005-1.

Currently, the Orange County market appears to be moderating after the past 12 months when the median price increased almost 7.5%. The current median price of \$645,000 equals the June 2007 peak of \$645,000. However, it appears that the upward pressure on price due to demand outpacing supply could be over. Please refer to the table on page 44 that summarizes the actively selling projects most comparable to the subject. As indicated, there is limited product similar to Mirador in the subject's market area. Products similar to that of the subject are experiencing sales rates around 2 to 3± units per month. There is a lack of similar product in the subject's market area. According to local brokers and sales agents in the area, there is demand for product. As indicated in the Comparable Residential Project Summary, most of the currently selling

products are situated on smaller lots than the subject and are smaller in unit size, particularly compared to the Mirador floodplans. On a price per square foot basis, the Valinda and Mirador products appear to be competitively priced. The Valinda product opened for sales in May 2012 and sold out in March 2014 for an indicated absorption of 3.2 units per month. Mirador has been selling at a rate of 2.0 units per month.

Maximally Productive

In considering what uses would be maximally productive for the subject property, we must consider the previously stated legal considerations. We are assuming the land uses allowed under the zoning of the City of San Juan Capistrano are the most productive uses that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time.

Given the improving demand for residential product in Orange County and the San Juan Capistrano market area, it is our opinion that development as built and as proposed for the Valinda and Mirador products provides the highest land value and is, therefore, maximally productive. The land proposed for 15 custom lots consists of rolling to steep topography. There are no site improvements at this time. Engineering costs are not available to analyze the feasibility of the custom lots at this time. Based on previous discussions with the developers, the current use for the land is to hold for future development. It is the appraisers' opinion that waiting for continued growth and strength in the residential market and national and local economy is prudent, before development of the 15 custom lots

Conclusion

Legal, physical, and market considerations have been analyzed to evaluate the highest and best use of the property. This analysis is presented to evaluate the type of uses that will generate the greatest level of future benefits possible from the land.

San Juan Capistrano Comparable Residential Project Summary Detached Single Family Homes

June 1, 2016

<u>No.</u>	Project, Builder & City		Minimum Lot Size	Base Sales Price	Unit <u>Size</u>	Base S/P /Sq. Ft.	No. Released	No. Sold Start Dt.	Overall Mo. Abs.
	Subject			Pricing a	as of June	2013			
1	Valinda	70	10,000	\$739,000	2,804	\$263.55	70	70	3.2
	Woodbridge Pacific Group			\$873,000	3,321	\$262.87		May-12	
	San Juan Capistrano			\$959,000	3,666	\$261.59		Sold-out	
				\$956,000	3,817	\$250.46		March 2014	
				S/P for Plan	1 as of Ja	nuary 2013			
	Subject								
2	Mirador	70	11,500	\$1,130,000	3,769	\$299.81	70	64	2.0
	Woodbridge Pacific Group			\$1,102,000	4,071	\$270.70		Oct-13	
	San Juan Capistrano			\$1,111,000	4,014	\$276.78			
				\$1,247,000	4,456	\$279.85			
				\$1,260,000	4,984	\$252.81			
3	Heirloom at Escenia Highlights	83	4,000	\$864,900	2,351	\$367.89	15	13	2.0
	CalAtlantic Homes			\$898,900	2,508	\$358.41		Nov-15	
	Rancho Mission Viejo			\$988,900	2,665	\$371.07			
				\$964,900	3,233	\$298.45			
4	Cirrus at Escenia	58	5,000	\$839,990	2,698	\$311.34	31	25	3.0
	Meritage Homes			\$894,990	2,894	\$309.26		Sep-15	
	Rancho Mission Viejo			\$964,990	3,211	\$300.53			
5	Augergine	66	5,500	\$1,029,900	3,097	\$332.55	36	20	2.4
	Tri Pointe Homes			\$1,105,900	3,374	\$327.77		Sep-15	
	Rancho Mission Viejo			\$1,092,900	3,324	\$328.79			
				\$1,169,900	3,765	\$310.73			

After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the 140 existing lots, as improved, is for residential development similar to the existing floor plans for Valinda and Mirador. For the raw land proposed for 15 custom lots, the highest and best use is to hold for future development.

As Vacant

After reviewing the alternatives available, it is these appraisers' opinion that ultimate development of the single-family detached for-sale products, similar to the existing product, is considered the highest and best use of the properties. The raw land has a highest and best use of holding for future development.

As improved

The existing use is a legal use of the land and the value of the land as improved far exceeds the value of the site if vacant. This means that the existing improvements contribute substantial value to the site. Based on these considerations, it is our opinion that the existing improvements constitute the highest and best use of the subject property.

VALUATION METHODOLOGY

Basis of Valuation

Valuation is based upon general and specific background experience, opinions of qualified informed persons, consideration of all data gathered during the investigative phase of the appraisal, and analysis of all market data available to the appraiser.

Valuation Approaches

Three basic approaches to value are available to the appraiser:

Cost Approach

This approach entails the preparation of a replacement or reproduction cost estimate of the subject property improvements new (maintaining comparable quality and utility) and then deducting for losses in value sustained through age, wear and tear, functionally obsolescent features, and economic factors affecting the property. This is then added to the estimated land value to provide a value estimate.

Income Approach

This approach is based upon the theory that the value of the property tends to be set by the expected net income therefrom to the owner. It is, in effect, the capitalization of expected future income into present worth. This approach requires an estimate of net income, an analysis of all expense items, the selection of a capitalization rate, and the processing of the net income stream into a value estimate.

Direct Comparison Approach

This approach is based upon the principle that the value of a property tends to be set by the price at which comparable properties have recently been sold or for which they can be acquired. This approach requires a detailed comparison of sales of comparable properties with the subject property. One of the main requisites, therefore, is that sufficient transactions of comparable properties be available to provide an accurate indicator of value and that accurate information regarding price, terms, property description, and proposed use be obtained through interview and observation.

As previously discussed, there are 69 completed dwelling units subject to Special Tax within the Valinda product which have sold to individual homeowners. In addition, as of the date of value, there are 62 completed and sold dwelling units with the Mirador product. There are four model homes that are complete but unsold. In addition, there are two completed production homes that are in escrow and two completed production homes that are available for sale. Due to the built-out status of the District, the appraisers have utilized a mass appraisal technique in the valuation of the completed dwelling units. When implementing a mass appraisal, conservative estimates are to be used in the valuation. It is implicit in mass appraisal that some individual value conclusions will not meet standards of reasonableness, consistency and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, the value conclusions meet attainable standards of accuracy. The appraisers have used an average conservative value, for the average size unit for each product. By utilizing average value estimates, individual home values could be higher or lower, depending on unit size. However, on an overall basis, the value conclusions are reasonable and meet attainable standards of accuracy.

The balance of the District includes raw land proposed for 15 custom lots, with no plans for near-term development. According to the specific instruction from the District and their Financial Consultant, the appraisers are reporting the Assessed Values for the raw land.

VALUATION OF DWELLING UNITS

Valuation of Completed and Sold Dwelling Units

As previously discussed, there are 131 completed dwelling units which sold to individual homeowners over the past 4± years. Please refer to the Addenda of this report for a unit by unit summary of each ownership, date of sale, and sales price. Due to the built-out status of this portion of the District, the appraisers have utilized a mass appraisal technique in the valuation of the completed dwelling units. When implementing a mass appraisal, conservative estimates are to be used in the valuation. It is implicit in mass appraisal that some individual value conclusions will not meet standards of reasonableness, consistency and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, the value conclusions meet attainable standards of accuracy. The appraisers have used an average conservative value, for the average size unit within each product for the sold dwellings. By utilizing average value estimates, individual home values could be higher or lower, depending on unit size. However, on an overall basis, the value conclusions are reasonable and meet attainable standards of accuracy.

There are 69 dwellings unit sales within the Valinda product, which started sales in May 2012, as the market began to improve. Sell-out of the Valinda product was March 2014. Sales of the Mirador product began October 12, 2013 and is nearing sell-out. This section of the report will first value the 131 sold dwelling units within the Valinda and Mirador products, followed by valuation of the built but unsold dwelling units and four model homes under ownership of the developer/builder.

As discussed within this report, the residential market has shown significant signs of improvement over the past 4± years. The sales for the Valinda and Mirador products have been during the same period of time, beginning in May 2012 to the present time. Interviews with sales personnel have reported price increases between phases of development, which is the first time this has occurred since 2006/2007.

Sales for the Valinda product began in May 2012 with the first escrow closing August 31, 2012. The Valinda product sold out in March 2014, representing an overall absorption rate of 3.2 units per month. The Mirador product opened for sales in October 2013 and as of the date of value, reported 64 sold dwelling units. The overall absorption rate for Mirador is 2.0 units per month. To analyze the sales trends within the Valinda and Mirada products the appraisers have reviewed the 69 closed sales within the Valinda product and 62 closed sales within the Mirador product. The analysis considers the average price per square foot for each year. Sales during the last half of 2014, 2015 and 2016 for the Valinda product represent resales. The summary for the Mirador product includes sales in 2014, 2015 and 2016. Based on current market conditions over the past 4± years, it would be reasonable to assume an upward trend in pricing for the Valinda and Mirador products, similar to other products in Orange County and California markets. Please refer to the following table which summarizes the average size unit, average sales price and average price per square foot for the Valinda and Mirador products. The analysis considers the average price per square foot for each year. A unit by unit sales summary is included in the Addenda.

	Summary of S	ales – Valinda	Project	
<u>Year</u>	No. of Sales	Avg. Size	Avg. S/P	Avg. \$/SF
2012	13	3,514 SF	\$774,692	\$220.44
2013	38	3,529 SF	\$890,276	\$252.27
2014	12	3,643 SF	\$1,082,583	\$297.13
2015/2016	6	3,831 SF	\$1,256,083	\$327.90
	Summary of S	ales – Miradoı	r Project	
2014	10	4,506 SF	\$1,223,150	\$271.43
2015	34	4,409 SF	\$1,251,588	\$283.88
2016	18	4,333 SF	\$1,253,333	\$289.24

The actual sales within the subject tracts reflect the state of the residential market over the timeframe of the sales. As indicated, the price per square foot has increased from \$220.44 to \$327.90 over the 4 year sales period for the Valinda product. As indicated in the sales summary, there is a significant increase in price paid per

square foot for the resales during the last half of 2014, 2015 and 2016 for the Valinda product. Discussions with brokers familiar with the development indicated that the higher prices paid for the resales are due to significant improvements to the landscape and hardscape including pools and built-in BBQ, etc. Homes that have not had similar improvements are selling closer to sales prices achieved in 2014. Due to the guidelines of this appraisal assignment, that is to provide a conservative value based for a mass appraisal; we have given greatest weight to the 2014 sales. The appraisers have considered the upward trend in sales prices during 2012 and 2013 with moderation beginning in 2014 to the present time. The average size dwelling unit for the 69 sold dwellings in the Valinda product is 3,572 square feet.

We have estimated a value per square foot of \$300.00 for the average size dwelling of the 69 sold dwelling units within Valinda. The estimated Minimum Market Value for the 69 sold dwellings within the Valinda product is calculated: 3,572 square feet X \$300.00 per square foot X 69 dwelling units = \$73,940,400 rounded to \$73,940,000.

The Mirador product has been selling since October 2013 with closings beginning mid-2014. The summary for the Mirador product includes sales in 2014, 2015 and 2016. As indicated in the sales summary, prices have been increasing over the 3 year sales period but at a moderate rate of 4.6% between 2014 and 2015 and 1.2% between 2015 and 2016, which is generally consistent with the residential market. The average size dwelling unit for the 62 sold homes within Mirador is 4,403 square feet, similar to the average size dwellings sold each year. The appraisers have given most consideration to the 2016 price per square foot and the stabilizing market conditions. We have estimated a value per square foot of \$290.00 for the 62 sold dwelling units. The estimated Minimum Market Value for the 62 sold dwellings within the Mirador product is calculated: 4,403 square feet X \$290.00 per square foot X 62 dwelling units = \$79,165,940, rounded to \$79,165,000.

The indicated Minimum Market Value for the 131 sold dwelling units within CFD No. 2005-1 is: \$153,105,000.

Valuation of Completed or Under Construction Dwelling Units

In addition to the 62 completed and sold dwelling units within the Mirador product, there are 4 complete model homes and 4 built production dwellings of which two are reported to be in escrow. As of the date of value, 2 production homes and 4 model homes remain available for sale.

The 4 model homes are listed for significantly above the production dwelling unit prices. The is due, in part, to the furniture and fixtures included in the price. The model homes also include extensive landscape and hardscape and interior amenities. The appraisers are only valuing the real estate in this appraisal assignment. In estimating a price per square foot, we have taken into consideration the landscape and hardscape and extensive option package included with the dwelling. No consideration is given to the furniture and fixtures of the model homes. The 4 model homes are for floor plans 2, 3, 4 & 5 of the Mirador product. The average size for the 4 floor plans is 4,078 square feet. The estimated Minimum Market Value for the 4 model homes is \$310.00 per square foot.

In addition to the 4 model homes there are 4 nearly complete production homes within the Mirador product. The four unsold production homes include two Plan 3's, one Plan 5 and one Plan 6. The average size for the four dwelling units is 4,396 square feet. The average base sales price for the four production homes is \$1,177,750 or \$267.91 per square foot. In estimating a minimum price per square foot for the Mirador production dwellings, the appraisers have considered the base sales prices, the current market conditions and forecast near-term market conditions. The estimated Minimum Market Value for the 4 production homes nearing completion is 80% of the base sales price.

The estimated Minimum Market Value for the 4 complete model homes and 4 nearly complete production homes within the Mirador product are:

4 Model Homes: 4,078 SF X \$310.00/SF X 4 DU = \$5,056,720

4 Production Homes 4,396 SF X \$268.00/SF X 80% X 4 DU = \$3,770,010

The indicated Minimum Market Value for the 8 dwellings within the Mirador product under the ownership of the builder/developer, Rancho San Juan Development LLC, is: \$8,826,730 rounded to \$8,827,000.

VALUATION OF RAW LAND PROPOSED FOR CUSTOM LOTS

General Information

As previously discussed in the report, there are 15 custom lots proposed within the District. The proposed lots are identified as Lots 141 through 155 of Final Tract Map No. 16634. The land is in raw condition and under the ownership of Rancho San Juan Development, LLC. The proposed lots are located on hillsides along the west canyon area of the District. As of the date of value, the appraisers have not been provided with a site plan or topography map or site costs. According to the existing zoning, the minimum lot size is 30,000 square feet. According to the builder/developer, the proposed lots are estimated to range from 30,056 square feet to 45,825 square feet with an average size of 33,527 square feet. No information has been provided regarding pad sizes.

Assessed Value Raw Land Proposed for 15 Custom Lots

According to the specific instruction from the District and their Financial Advisors, the appraisers have not valued the raw undeveloped land. No analysis has been completed. According to the specific instruction of the District, the appraisers are reporting the Assessed Value for the raw land. Please refer to the Addenda of this report for a lot by lot summary of the Assessed Values. Each lot has a Fiscal Year 2015/2016 Assessed Value of \$70,411 which equates to \$1,056,165, rounded to \$1,056,000.

VALUATION CONCLUSIONS

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinions of Minimum Market Value are formed as of June 1, 2016. The reporting of Assessed Value is as of January 1, 2015.

MINIMUM MARKET VALUE – 131 INDIVIDUAL OWNERSHIPS

ONE HUNDRED FIFTY-THREE MILLION
ONE HUNDRED FIVE THOUSAND DOLLARS

\$153,105,000

MINIMUM MARKET VALUE - RANCHO SAN JUAN DEVELOPMENT LLC

(4 MODEL HOMES & 4 PRODUCTION HOMES)

EIGHT MILLION EIGHT HUNDRED TWENTY-SEVEN THOUSAND DOLLARS

\$8,827,000

ASSESSED VALUE - RANCHO SAN JUAN DEVELOPMENT LLC

(Raw Land Proposed for 15 Custom Lots)

ONE MILLION FIFTY-SIX THOUSAND DOLLARS

\$1,056,000

CERTIFICATION

We hereby certify that during the completion of this assignment, we personally inspected the property that is the subject of this appraisal and that, except as specifically noted:

We have no present or contemplated future interest in the real estate or personal interest or bias with respect to the subject matter or the parties involved in this appraisal.

We have provided appraisal services regarding the subject property within the last three years to our client, Capistrano Unified School District.

To the best of our knowledge and belief, the statements of fact contained in this appraisal report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

As of the date of this report, James B. Harris has completed the requirements of the continuing education program of the Appraisal Institute.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

No one provided significant real property appraisal assistance to the persons signing this certificate.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,

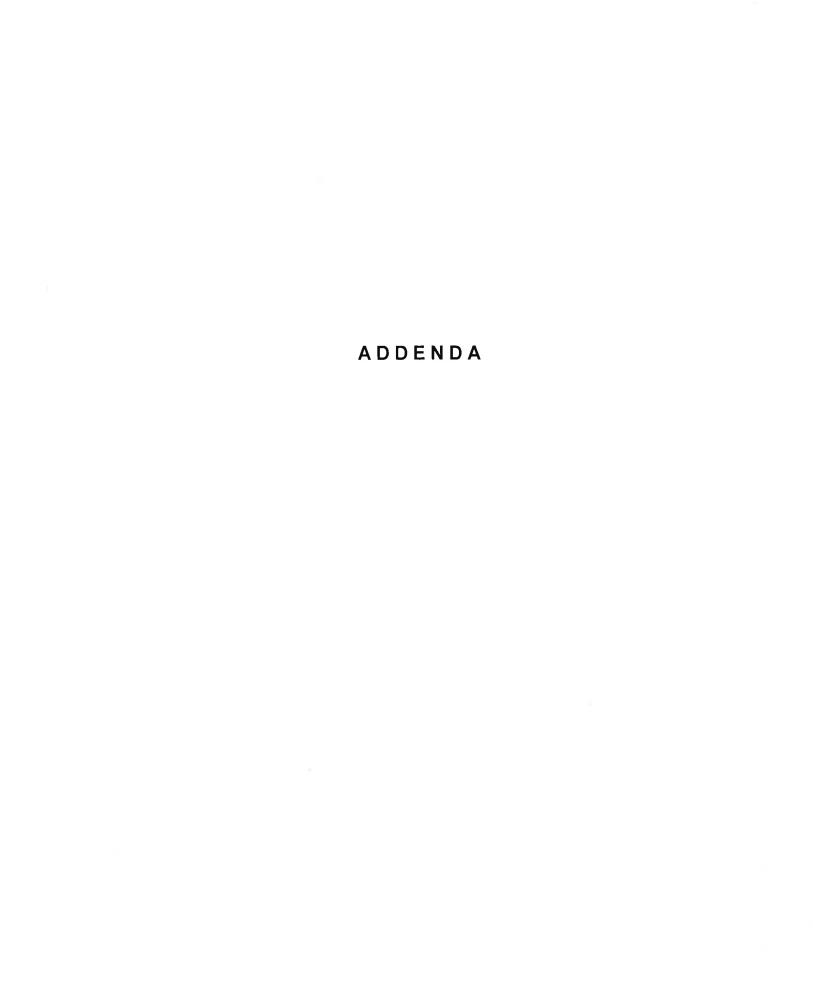
Berri Cannon Harris

Principal
AG009147

Dans B Hans

James B. Harris, MAI

Principal AG001846



QUALIFICATIONS

HARRIS REALTY APPRAISAL 5100 Birch Street, Suite 200 Newport Beach, CA 92660 (949) 851-1227

QUALIFICATIONS OF JAMES B. HARRIS, MAI

PROFESSIONAL BACKGROUND

Actively engaged as a real estate analyst and consulting appraiser since 1971. Principal of **Harris Realty Appraisal**, with offices at:

5100 Birch Street, Suite 200 Newport Beach, California 92660

Before forming Harris Realty Appraisal, in 1982, was employed with Real Estate Analysts of Newport, Inc. (REAN) as a Principal and Vice President. Prior to employment with REAN was employed with the Bank of America as the Assistant Urban Appraisal Supervisor. Previously, was employed by the Verne Cox Company as a real estate appraiser.

PROFESSIONAL ORGANIZATIONS

Member of the Appraisal Institute, with MAI designation No. 6508

Director, Southern California Chapter - 1998, 1999

Chair, Orange County Branch, Southern California Chapter -1997

Vice-Chair, Orange County Branch, Southern California Chapter - 1996

Member, Region VII Regional Governing Committee - 1991 to 1995, 1997, 1998

Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999

Chairman, Southern California Chapter Seminar Committee - 1991

Chairman, Southern California Chapter Workshop Committee - 1990

Member, Southern California Chapter Admissions Committee - 1983 to 1989

Member, Regional Standards of Professional Practice Committee -1985 - 1997

Member of the International Right-of-Way Association, Orange County Chapter 67.

California State Certified Appraiser, Number AG001846

EDUCATIONAL ACTIVITIES

B.S., California State Polytechnic University, Pomona

Successfully completed the following courses sponsored by the Appraisal Institute and the Right-of-Way Association:

Course I-A	Principles of Real Estate Appraisal
Course I-B	Capitalization Theory
Course II	Urban Properties
Course IV	Litigation Valuation
Course VI	Investment Analysis
Course VIII	Single-Family Residential Appraisal
Course SPP	Standards of Professional Practice
Course 401	Appraisal of Partial Acquisitions

Has attended numerous seminars sponsored by the Appraisal Institute and the International Right-of-Way Association.

TEACHING AND LECTURING ACTIVITIES

Seminars and lectures presented to the Appraisal Institute, the University of California-Irvine, UCLA, California Debt and Investment Advisory Commission, Stone & Youngberg and the National Federation of Municipal Analysts.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

LEGAL EXPERIENCE

Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of Eminent Domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 175 Land Secured Municipal Bond Financing appraisals over the last five years.

SCOPE OF EXPERIENCE

Feasibility and Consultive Studies

Feasibility and market analyses, including the use of computer-based economic models for both land developments and investment properties such as shopping centers, industrial parks, mobile home parks, condominium projects, hotels, and residential projects.

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.

QUALIFICATIONS OF BERRI CANNON HARRIS

PROFESSIONAL BACKGROUND

Actively engaged as a real estate appraiser since 1982. Principal of *Harris Realty Appraisal*, with offices at:

5100 Birch Street, Suite 200 Newport Beach, California 92660

Before joining Harris Realty Appraisal was employed with Interstate Appraisal Corporation as Assistant Vice President. Prior to employment with Interstate Appraisal was employed with Real Estate Analysts of Newport Beach as a Research Assistant.

PROFESSIONAL ORGANIZATIONS

Appraisal Institute

Co-Chair, Southern California Chapter Hospitality Committee - 1994 - 1998 Chair, Southern California Chapter Research Committee - 1992, 1993

Commercial Real Estate Women (CREW) – Orange County Chapter Chair, Special Events – 1998 - 2003 Second Vice-President - 1996, 1997 Treasurer - 1993, 1994, 1995 Chair, Network Luncheon Committee - 1991, 1992

California State Certified Appraiser, Number AG009147

EDUCATIONAL ACTIVITIES

B.S., University of Redlands, Redlands, California

Successfully completed the following courses sponsored by the Appraisal Institute:

Principles of Real Estate Appraisal
Basic Valuation Procedures
Capitalization Theory and Techniques - A
Capitalization Theory and Techniques - B
Report Writing and Valuation Analyses
Standards of Professional Practice
Case Studies in Real Estate Valuation

Has attended numerous seminars sponsored by the Appraisal Institute. Has also attended real estate related courses through University of California-Irvine.

LECTURING ACTIVITIES

Seminars and lectures presented to UCLA, California Debt and Investment Advisory Commission, and Stone & Youngberg.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

SCOPE OF EXPERIENCE

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

PARTIAL LIST OF CLIENTS

Lending Institutions

Bank of America
Bank One
Commerce Bank
Downey S&L Assoc.
Fremont Investment and Loan
First Los Angeles Bank
Institutional Housing Partners

NationsBank Preferred Bank Santa Monica Bank Tokai Bank Union Bank Universal S&L Assoc. Wells Fargo Bank

Public Agencies

Army Corps of Engineers
California State University
Caltrans
City of Aliso Viejo
City of Beaumont
City of Corona
City of Costa Mesa
City of Encinitas
City of Fontana
City of Fullerton
City of Hemet

City of Hesperia
City of Honolulu
City of Huntington Beach
City of Indian Wells

City of Irvine
City of Lake Elsinore
City of Loma Linda
City of Los Angeles
City of Moreno Valley
City of Newport Beach
City of Oceanside

City of Palm Springs
City of Perris
City of Riverside
City of San Marcos
City of Tustin
City of Victorville
County of Orange
County of Riverside
County of San Bernardino
Eastern Municipal Water District
Orange County Sheriff's Department
Ramona Municipal Water District
Rancho Santa Fe Comm. Services District

Capistrano Unified School District
Hemet Unified School District
Hesperia Unified School District
Romoland School District

Saddleback Valley Unified School District Santa Ana Unified School District

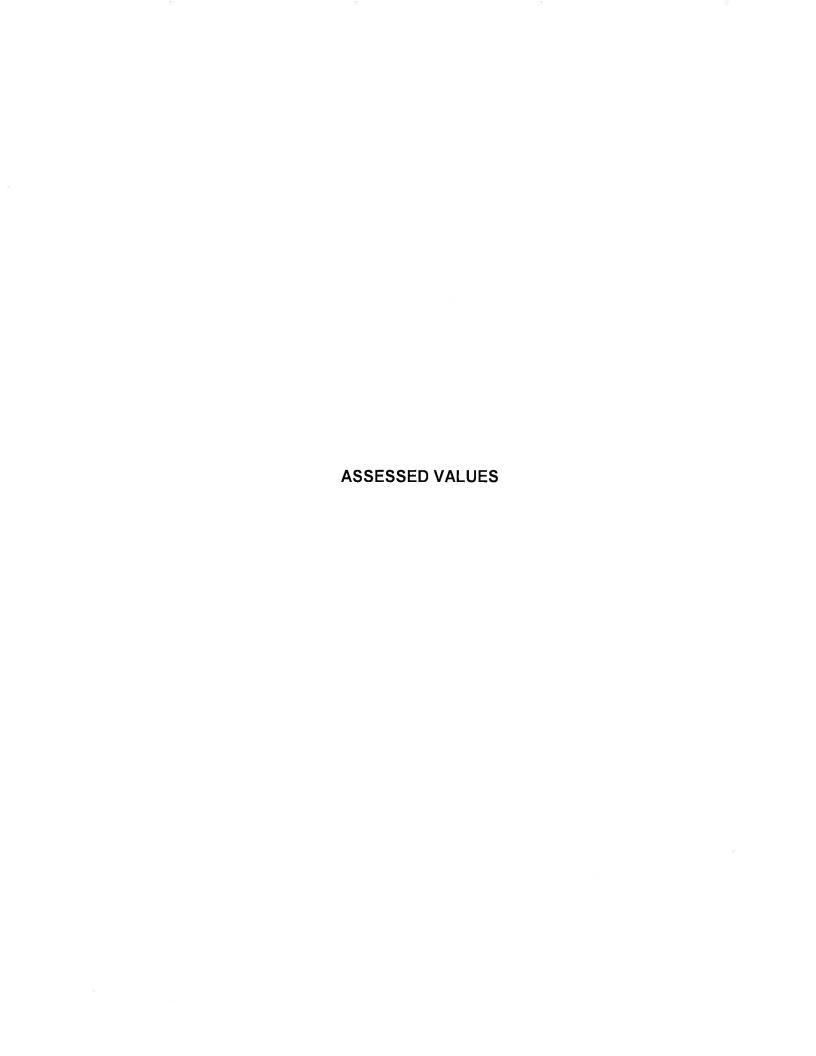
Val Verde Unified School District

Yucaipa-Calimesa Unified School District

Law Firms

Arter & Hadden
Bronson, Bronson & McKinnon
Bryan, Cave, McPheeters & McRoberts
Richard Clements
Cox, Castle, Nicholson
Gibson, Dunn & Crutcher
Hill, Farrer & Burrill

McClintock, Weston, Benshoof, Rochefort & MacCuish Palmiri, Tyler, Wiener, Wilhelm, & Waldron Sonnenschein Nath & Rosenthal Strauss & Troy Wyman, Bautzer, Rothman, Kuchel & Silbert

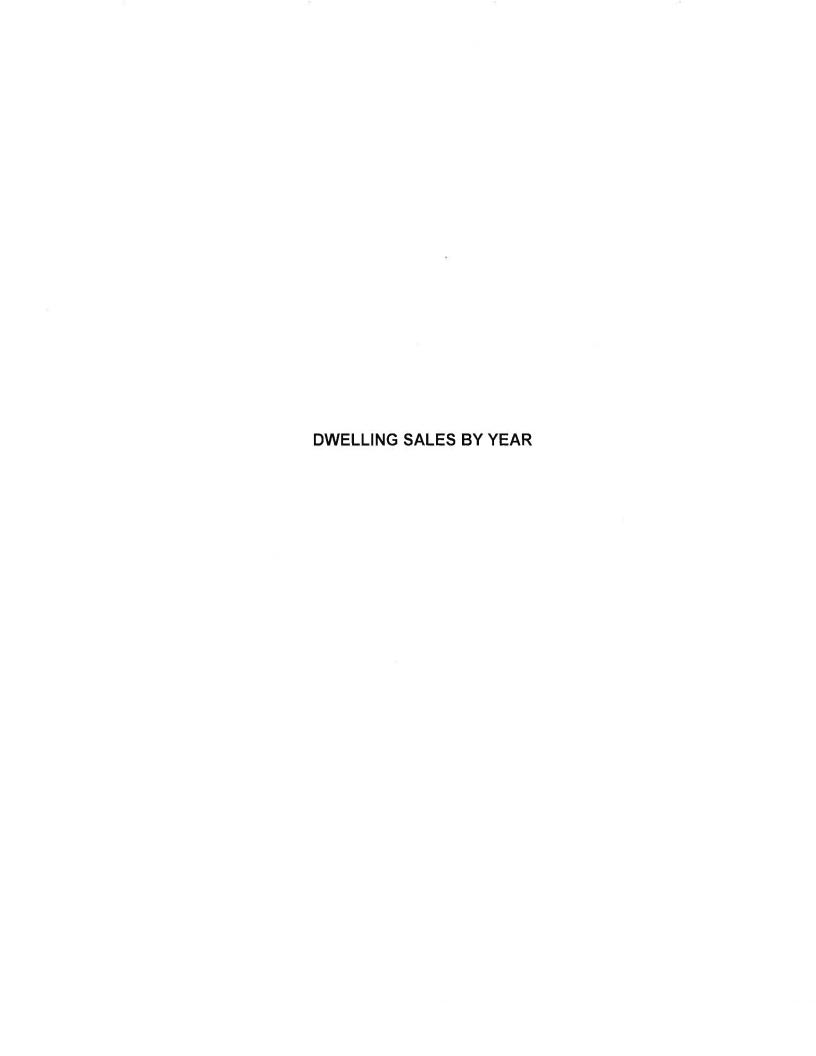


APN	Tract	Lot	owner15	project	permit dt	bldg sf	tax class land	land use	avland15	avimpv15	avnet15
66425304	16634	79	BATTEL, THERESA M TR	VALINDA	8/29/2012	3,321	R7	SFD	\$229,521	\$665,537	\$888,058
66425305	16634	78	SHAIKH, MOHSIN SHAIKH, ANJALI	VALINDA	8/29/2012	3,817	R5	SFD	\$180,121	\$701,159	\$881,280
66425306	16634	77	LINDER, DAVID M	VALINDA	10/11/2012	3,666	R6	SFD	\$297,201	\$712,230	\$1,009,431
66425307	16634	92	AL-ALI, YASER AMMAR	VALINDA	10/11/2012	3,817	R5	SFD	\$261,461	\$691,970	\$953,431
66425308	16634	75	KHARBANDA, ANAND KHARBANDA, KELLY M	VALINDA	10/11/2012	3,817	R5	SFD	\$262,196	\$691,970	\$954,166
66425309	16634	74	VAUGHAN, LARRY Q VAUGHAN, LYNN ANNE	VALINDA	10/11/2012	3,666	R6	SFD	\$188,790	\$744,927	\$926,717
66425310	16634	16	STRONGIN, ERIC BURTON STRONGIN, AMBER LEE	VALINDA	8/2/2012	3,516	R6	SFD	\$183,720	\$630,071	\$806,791
66425311	16634	15	PUTNAM, BRANT FORBES, ALISON	VALINDA	8/2/2012	3,516	R6	SFD	\$266,305	\$630,158	\$889,463
66425312	16634	14	GRAMMAS, MICHAEL GRAMMAS, ANGELA	VALINDA	8/2/2012	3,889	R5	SFD	\$231,277	\$649,884	\$874,161
66425313	16634	7	REITER, SHEA REITER, KATRINA	VALINDA	8/2/2012	2,804	R8	SFD	\$225,471	\$595,237	\$820,708
66425314	16634	12	SCHIFFMAN, JOEL SCHIFFMAN, ELAINE C	VALINDA	8/2/2012	3,516	R6	SFD	\$169,372	\$686,005	\$848,377
66425315	16634	13	MC LAIN, PATRICIA	VALINDA	8/2/2012	3,817	R5	SFD	\$229,791	\$691,970	\$921,761
66425316	16634	140	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,456	R3	SFD	\$49,839	\$0	\$49,839
66425317	16634	139	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,329	R3	SFD	\$49,839	\$0	\$49,839
66425318	16634	138	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,071	R 4	SFD	\$49,839	\$0	\$49,839
66425319	16634	137	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,023	R4	SFD	\$49,839	\$0	\$49,839
66425320	16634	136	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,942	K 2	SFD	\$49,839	\$0	\$49,839
66425321	16634	135	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,329	33	SFD	\$49,839	\$0	\$49,839
66425322	16634	134	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	3,769	R5	SFD	\$49,839	\$0	\$49,839
66425323	16634	133	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	8/6/2015	4,023	R 4	SFD	\$49,839	\$0	\$49,839
66425324	16634	73	HART, ALEXANDER HART, GLYENIS	VALINDA	10/11/2012	3,666	R6	SFD	\$305,787	\$669,369	\$975,156
66425325	16634	72	GREER, JEFFREY GREER, ELANA	VALINDA	10/11/2012	3,666	R6	SFD	\$345,559	\$703,684	\$1,049,243
66425326	16634	71	TRACY, JUSTIN BRISCOE, AMANDA	VALINDA	10/11/2012	3,516	R6	SFD	\$505,164	\$678,012	\$1,183,176
66425327	16634	20	PLAMBECK, GREGG EDMOND PLAMBECK, LUZ MARIA	VALINDA	10/11/2012	3,817	R5	SFD	\$185,187	\$696,489	\$874,676
66425328	16634	69	BARRIOS, BENNETT ROSS BARRIOS, LAURA GALLAGHER VALINDA	VALINDA	10/11/2012	3,321	R7	SFD	\$356,715	\$650,285	\$1,007,000
66425329	16634	99	BROWN, RAYMOND E BROWN, MELODY C	VALINDA	10/11/2012	3,516	R6	SFD	\$180,877	\$665,451	\$839,328
66425330	16634	29	DANIEL, CHARLES B DANIEL, STACIE	VALINDA	12/19/2012	3,516	R6	SFD	\$300,110	\$632,953	\$926,063
66425331	16634	99	WILLIAMS, JIM R WILLIAMS, SANDRA	VALINDA	12/19/2012	2,804	R8	SFD	\$211,732	\$253,313	\$458,045
66425332	16634	65	LUITHLY, JOHN R TR 1996 LUITHLY FAMILY TR	VALINDA	12/19/2012	3,516	R6	SFD	\$262,888	\$434,713	\$690,601
66425333	16634	64	LEE, MING-CHOU TR MING-CHOU LEE & FENG-YU	VALINDA	12/19/2012	3,891	R5	SFD	\$355,289	\$691,458	\$1,039,747
66425334	16634	63	PETERSON, JEROME M	VALINDA	12/19/2012	3,321	R7	SFD	\$181,523	\$265,619	\$440,142
66425335	16634	62	STANFORD, GUY TED STANFORD, HOLLIE LEE	VALINDA	12/19/2012	3,666	R6	SFD	\$393,030	\$656,245	\$1,049,275
66425401	16634	24	BARBER, BRETT R TR BARBER FAMILY TR	VALINDA	12/19/2012	3,891	R5		\$392,433	\$711,742	\$1,104,175
66425402	16634	39	PHAM, TRUONG DO CAN	MIRADOR	11/25/2013	4,942	R2		\$1,244,629	0\$	\$1,244,629
66425403	16634	38	PHAM, CANG DO, THANH QUE THI	MIRADOR	11/25/2013	4,329	R3		\$1,216,000	8	\$1,216,000
66425404	16634	37	DAM, DOAN CHUONG TRINH, THI BACH YEN	MIRADOR	11/25/2013	4,071	R4		\$1,157,000	\$0	\$1,157,000
66425405	16634	36	PERRY, MARK W	MIRADOR	11/25/2013	4,023	R4		\$389,942	\$727,058	\$1,110,000
66425406	16634	43	BOTROS, SAMER F H BOTROS, SUSAN L	MIRADOR	11/25/2013	4,329	23		\$1,140,000	&	\$1,140,000
66425407	16634	45	ROGERS, TY G ROGERS, SHELLY L	MIRADOR	11/25/2013	4,023	R4	SFD	\$1,116,680	8	\$1,116,680
66425408	16634	4	THEOLOGIDY, JACOB JAMES THEOLOGIDY, JANET	MIRADOR	11/25/2013	4,942	R2		\$1,130,925	\$0	\$1,130,925
66425409	16634	40	SCHANNAULT, LAURENCE D SCHANNAULT, MARY C	MIRADOR	11/25/2013	4,023	R4	SFD	\$219,442	\$799,533	\$1,011,975
66425410	16634	101	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	3,769	R5	SFD	\$49,839	\$703,055	\$752,894
66425411	16634	102	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,329	R 3	SFD	\$49,839	\$778,999	\$828,838

APN	Tract	Lot	owner15	project	permit dt	bldg sf	tax class	tax class land use	avland15	avimpv15	avnet15
66425412	16634	103	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,071	R4	SFD	\$49,839	\$757,389	\$807,228
66425413	16634	104	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,014	R 4	SFD	\$49,839	\$743,563	\$793,402
66425414	16634	105	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,071	R4	SFD	\$49,839	\$757,389	\$807,228
66425415	16634	106	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	3,769	R5	SFD	\$49,839	\$703,055	\$752,894
66425416	16634	107	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,071	R4	SFD	\$49,839	\$643,777	\$693,616
66425417	16634	108	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	5,368	R 2	SFD	\$49,839	\$809,607	\$859,446
66425418	16634	109	RANCHO SAN JUAN DEVELOPENT LLC	MIRADOR	5/29/2014	4,942	R2	SFD	\$49,839	\$744,787	\$794,626
66425419	16634	110	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	5,332	K 2	SFD	\$49,839	\$809,607	\$859,446
66425420	16634	111	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,023	R 4	SFD	\$49,839	\$619,693	\$669,532
66425421	16634	112	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,014	R4	SFD	\$49,839	\$640,525	\$690,364
66425422	16634	113	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,942	R 2	SFD	\$49,839	\$744,787	\$794,626
66425423	16634	114	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	5/29/2014	4,329	R3	SFD	\$49,839	\$663,846	\$713,685
66425501	16634	82	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	9/8/2014	4,623	R 2	SFD	\$49,839	\$506,428	\$556,267
66425502	16634	83	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	9/8/2014	4,014	R 4	SFD	\$49,839	\$446,134	\$495,973
66425503	16634	84	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	9/8/2014	4,984	K 2	SFD	\$49,839	\$533,056	\$582,895
66425504	16634	82	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	9/8/2014	4,021	R 4	SFD	\$49,839	\$442,231	\$492,070
66425505	16634	98	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,775	K 2	SFD	\$49,839	\$0	\$49,839
66425506	16634	87	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,948	K 2	SFD	\$49,839	\$0	\$49,839
66425507	16634	88	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,071	R4	SFD	\$49,839	\$0	\$49,839
66425508	16634	89	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,942	R 2	SFD	\$49,839	\$0	\$49,839
66425509	16634	58	MOMTAHAN, NAVIDA	VALINDA	12/19/2012	3,891	R5	SFD	\$211,817	\$667,073	\$871,890
66425510	16634	59	KILBOURNE, JAMES WATSON KILBOURNE, MAYUMI	VALINDA	12/19/2012	2,804	R8	SFD	\$187,724		\$509,548
66425511	16634	9	HOFFMAN, DAVID B TR HOFFMAN 2010 FAMILY TR	VALINDA	12/19/2012	3,321	R7	SFD	\$471,495	\$642,505	\$1,114,000
66425512	16634	61	MC INTYRE, MICHAEL G MC INTYRE, JULIENN	VALINDA	12/19/2012	3,666	R6	SFD	\$382,000		\$1,038,245
66425513	16634	90	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	5,332	R 2	SFD	\$49,839	\$0	\$49,839
66425514	16634	91	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,071	R4	SFD	\$49,839	\$0	\$49,839
66425515	16634	95	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,329	R3	SFD	\$49,839	\$0	\$49,839
66425516	16634	93	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,329	33	SFD	\$49,839	\$0	\$49,839
66425517	16634	94	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,071	R4	SFD	\$49,839	\$0	\$49,839
66425518	16634	95	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	11/20/2014	4,329	R3	SFD	\$49,839	\$0	\$49,839
66425519	16634	96		MIRADOR	9/8/2014	4,071	R4	SFD	\$49,839	\$454,430	\$504,269
66425520	16634	26	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	9/8/2014	4,507	R3	SFD	\$49,839	\$486,228	\$536,067
66425521	16634	98	SAN JUAN DEVELOPMENT	MIRADOR	9/8/2014	4,071	R4	SFD	\$49,839	\$454,430	\$504,269
66425522	16634	66	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	9/8/2014	4,071	R4	SFD	\$49,839	\$454,430	\$504,269
66425523	16634	100	JUAN DEVELOPMENT	MIRADOR	9/8/2014	4,023	R4	SFD	\$49,839	\$442,231	\$492,070
66425524	16634	115	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	4/23/2015	4,329	R3	SFD	\$49,839	\$0	\$49,839
66425525	16634	116	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	4/23/2015	4,984	K 2	SFD	\$49,839	\$0	\$49,839
66425526	16634	117	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	4/23/2015	4,942	R2	SFD	\$49,839	\$0	\$49,839
66425527	16634	118	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	4/23/2015	4,984	K 2	SFD	\$49,839	\$0	\$49,839
66425528	16634	119	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	4/23/2015	4,942	R 2	SFD	\$49,839	\$0	\$49,839
66425529	16634	120	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	4/23/2015	4,984	K 2	SFD	\$49,839	\$0	\$49,839
66425530	16634	121	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	1/21/2013	4,937	R2	SFD	\$49,839	\$828,093	\$877,932
66425531	16634	122	RANCHO SAN JUAN DEVELOPMENT LLC	MIRADOR	1/21/2013	4,822	R 2	SFD	\$49,839	\$788,438	\$838,277

\$1,056,165	\$97,596,045
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v15 avnet15	346 \$760,185	847 \$738,686	\$0 \$49,839	\$0 \$49,839	\$0 \$49,839	\$0 \$49,839	\$0 \$49,839	\$0 \$49,839	\$0 \$49,839	\$0 \$49,839	\$96,539,880	\$0 \$70,411	\$0 \$70,411		\$0 \$70,411					\$0 \$70,411				\$0 \$70,411	\$0 \$70,411	
avland15 avimpv15	\$49,839 \$710,346	\$49,839 \$688,847	\$49,839	\$49,839	\$49,839	\$49,839	\$49,839	\$49,839	\$49,839	\$49,839		\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70,411	\$70 411
tax class land use	SFD		UNDEVEL	INDEVE																						
	R4	R 4	R 4	R 4	R5	RS	K 2	R4	R 4	R2		⊃	⊃	⊃	⊃	¬	ר	D	⊃	⊃	⊃	n	0	Π	⊃	-
bldg_sf	4,071	4,023	4,071	4,071	3,769	3,769	4,942	4,071	4,071	4,984		0	0	0	0	0	0	0	0	0	0	0	0	0	0	c
permit_dt	1/21/2013	1/21/2013	8/6/2015	8/6/2015	8/6/2015	8/6/2015	8/6/2015	8/6/2015	8/6/2015	8/6/2015		ı	ř	ř.	ar ä	a â	ř	e é	a a	î	r Ē	ri E	(4) (3)	ir ir	i i	
project	MIRADOR		CUSTOM	A CHOLO																						
owner15	RANCHO SAN JUAN DEVELOPMENT LLC		RANCHO SAN JUAN DEVELOPMENT LLC	OF HAMPIOO TAY TO THE TAY OF OTHER																						
Lot	123	124	125	126	127	128	129	130	131	132		155	154	153	152	151	150	149	148	147	146	145	144	143	142	777
Tract	16634	16634	16634	16634	16634	16634	16634	16634	16634	16634	139	16634	16634	16634	16634	16634	16634	16634	16634	16634	16634	16634	16634	16634	16634	10001
APN	66425532	66425533	66425534	66425535	66425536	66425537	66425538	66425539	66425540	66425541	+	66424101	66424102	66424103	66424104	66424105	66424106	66424107	66424108	66424109	66424110	66424111	66424112	66424113	66424114	TANA 000



VALINDA DWELLING UNIT SALES SUMMARIZED BY YEAR

APN	Ownership	DU Sz	Lot	Tract	Lot Sz	Prop. Tax	Rec. Date	Doc No.	Sale Price	Seller
664-252-10	Scott E & Lea Ann Chicoine	3,852	7	16634	13,944	\$16,119	8/31/2012	511069	\$790,500	Rancho San Juan Dev Llc
664-252-06	Stanley J & Karan R Bartnick	2,814	2	16634	10,690	\$14,196	9/12/2012	532849	\$698,000	Rancho San Juan Dev Llc
664-252-15	Hiromitsu J Watari	3,400	21	16634	1,000	\$14,698	9/13/2012	537264	\$698,000	Rancho San Juan Dev Llc
664-252-07	Jonathan & Miranda Taft	4,000	4	16634	11,891	\$16,750	9/14/2012	537926	\$825,000	Rancho San Juan Dev Llc
664-252-13	Sarah M Elliott	3,760	23	16634	19,640	\$17,256	9/20/2012	553982	\$854,500	Rancho San Juan Dev Llc
664-252-14	Daniel Shay	3,852	22	16634	10,876	\$16,295	10/12/2012	621851	\$800,500	Rancho San Juan Dev Llc
664-252-04	Curtis Family Living Trust	3,852	7	16634	11,670	\$16,265	10/16/2012	630740	\$804,000	Rancho San Juan Dev Llc
664-252-05	Steven & Heather C Soliz	3,321	9	16634	9,692	\$15,327	10/19/2012	640921	\$757,000	Rancho San Juan Dev Llc
664-252-03	Patel Family Trust	3,595	∞	16634	10,722	\$16,026	10/19/2012	637934	\$821,000	Rancho San Juan Dev Llc
664-252-01	Charles & Sylvie Barazin	3,852	10	16634	10,522	\$16,148	10/29/2012	660279	\$793,500	Rancho San Juan Dev Llc
664-252-17	John C & Shirley May Lee Han	3,760	19	16634	10,783	\$16,038	11/7/2012	026989	\$795,500	Rancho San Juan Dev Lic
664-252-18	Davis John & Linda Family Trus	2,814	18	16634	10,991	\$14,284	11/13/2012	696602	\$695,500	Rancho San Juan Dev Llc
664-252-02	Shara Marren	2,814	6	16634	10,013	\$14,624	12/7/2012	760525	\$738,000	Rancho San Juan Dev Llc
		3,514	13						\$774,692	
									\$220.44	
664-253-13	Shea & Katrina Reiter	2,814	11	16634	10,165	\$15,301	1/23/2013	45682	\$751,000	Rancho San Juan Dev Llc
664-253-14	Joel & Elaine C Schiffman	3,595	12	16634	10,168	\$16,461	1/23/2013	46031	\$798,000	Rancho San Juan Dev Llc
664-252-09	Elizabeth & Shawn Mc Graw	2,814	7	16634	11,938	\$14,153	3/5/2013	134927	\$694,000	Rancho San Juan Dev Llc
664-253-11	Brant Putnam	3,400	15	16634	20,501	\$16,892	2/7/2013	82832	\$875,000	Rancho San Juan Dev Llc
664-253-15	Patricia Mc Lain	3,852	13	16634	17,967	\$17,364	2/8/2013	86265	\$867,000	Interspousal Deed Transfer
664-253-12	Michael & Angela Grammas	3,760	14	16634	28,838	\$16,866	3/8/2013	143995	\$860,000	Rancho San Juan Dev Llc
664-253-10	Eric Burton & Amber Lee Strongin	3,400	16	16634	14,497	\$16,026	3/8/2013	144031	\$794,500	Rancho San Juan Dev Llc
664-252-21	Jeremy J & Jodeen R Howes	3,400	46	16634	10,754	\$16,743	3/27/2013	183048	\$855,000	Rancho San Juan Dev Llc
664-253-02	Steven E & Judy L Moore	2,814	81	16634	12,550	\$14,731	4/11/2013	216885	\$755,000	Rancho San Juan Dev Llc
664-253-04	Theresa M Battel	3,595	79	16634	14,466	\$16,509	4/19/2013	235999	\$874,000	Rancho San Juan Dev Llc
664-253-05	Mohsin & Anjali Shaikh	3,852	78	16634	17,811	\$16,940	4/25/2013	248287	\$860,500	Rancho San Juan Dev Llc
664-253-01	Brandon To	3,760	17	16634	13,577	\$16,509	4/30/2013	259524	\$820,000	Rancho San Juan Dev Llc
664-252-22	Tracy & Angela Marie Angelini	3,760	47	16634	25,033	\$17,720	5/10/2013	285443	\$940,000	Rancho San Juan Dev Llc
664-252-29	Ismieal Muhsin	2,814	20	16634	14,226	\$14,979	5/14/2013	292170	\$771,000	Rancho San Juan Dev Lic
664-252-30	Daryn Barney	3,595	51	16634	12,485	\$16,545	5/15/2013	295283	\$836,000	Rancho San Juan Dev Llc
664-252-31	Phat Nguyen	3,852	52	16634	13,784	\$16,815	5/17/2013	301754	\$848,500	Rancho San Juan Dev Lic

VALINDA DWELLING UNIT SALES SUMMARIZED BY YEAR

APN	Ownership	DU Sz	Lot	Tract	Lot Sz	Prop. Tax	Rec. Date	Doc No.	Sale Price	Seller
664-252-19	Charles William & Elizabeth Landrig	3,516	44	16634	9,352	\$16,669	5/30/2013	328332	\$847,500	Rancho San Juan Dev Lic
664-253-27	Gregg Edmond & Luz Maria Plambe	3,852	70	16634	14,397	\$16,871	6/5/2013	342979	\$860,500	Rancho San Juan Dev Llc
664-253-29	Raymond E & Melody C Brown	3,516	89	16634	23,353	\$16,367	6/7/2013	347084	\$826,000	Rancho San Juan Dev Llc
664-253-25	Jeffrey & Elana Greer	3,760	72	16634	15,388	\$18,565	6/13/2013	360299	\$990,000	Rancho San Juan Dev Llc
664-253-09	Vaughan Family Trust	3,760	74	16634	24,568	\$17,282	6/24/2013	380304	\$996,500	Rancho San Juan Dev Llc
664-253-07	Yaser Ammar Al-ali	3,852	9/	16634	10,106	\$17,696	6/26/2013	387281	\$931,000	Rancho San Juan Dev Llc
664-253-08	Kharbanda Anand & Kelly Trust	3,852	75	16634	10,076	\$17,704	6/28/2013	394982	\$931,500	Rancho San Juan Dev Llc
664-252-33	Jean Rheaume	2,814	24	16634	16,621	\$15,232	7/12/2013	418753	\$769,000	Rancho San Juan Dev Llc
664-252-34	Sherry L Franz-perko	3,595	55	16634	18,136	\$17,614	7/16/2013	424832	\$901,000	Rancho San Juan Dev Llc
664-252-35	Glenn & Clare Bogle	3,760	26	16634	18,566	\$16,843	7/19/2013	433967	\$861,500	Rancho San Juan Dev Llc
664-253-24	Alexander & Glyenis Hart	3,760	73	16634	45,172	\$17,789	7/19/2013	433978	\$956,500	Rancho San Juan Dev Llc
664-255-10	James Watson & Mayumi Kilbourne	2,814	29	16634	17,883	\$12,042	7/31/2013	458935	\$761,000	Rancho San Juan Dev Llc
664-253-06	David M Linder	3,760	77	16634	11,486	\$18,148	8/1/2013	459133	\$947,000	Rancho San Juan Dev Llc
664-255-12	Michael G & Julienn Mc Intyre	3,760	61	16634	35,722	\$18,450	8/9/2013	476726	\$1,018,000	Rancho San Juan Dev Llc
664-253-34	Peterson Trust	3,400	63	16634	11,230	\$11,817	8/13/2013	480885	\$947,000	Rancho San Juan Dev Llc
664-253-33	Ming-chou Lee	4,000	64	16634	10,662	\$18,600	8/19/2013	490742	\$1,007,000	Rancho San Juan Dev Llc
664-255-09	Navida Momtahan	4,000	28	16634	25,867	\$16,842	8/20/2013	493406	\$862,000	Rancho San Juan Dev Llc
664-253-32	Luithly John R Tr 1996 Luithly	3,595	65	16634	10,309	\$14,809	8/26/2013	503528	\$950,000	Rancho San Juan Dev Llc
664-253-31	Jim R & Sandra Williams	2,814	99	16634	10,034	\$11,502	9/4/2013	519338	\$824,000	Rancho San Juan Dev Llc
664-253-30	Charles B & Stacie Daniel	3,595	29	16634	12,466	\$17,275	9/4/2013	519557	\$915,000	Rancho San Juan Dev Llc
664-252-08	Shelby D S D Revoc Tr Williams	3,400	3	16634	11,857	\$19,954	9/25/2013	551481	\$1,200,000	Harris Matthew & Selena
664-252-37	Rajiv & Alpa Jain	3,852	31	16634	9,953	\$21,908	10/29/2013	605118	\$1,329,000	Rancho San Juan Dev Lk
		3,529	38						\$890,276 \$252.27	
664-252-12	Justin & Vanessa Piot	3,516	25	16634	11,247	\$17,119	1/14/2014	15710	\$900,500	Rancho San Juan Dev Llc
664-252-23	Gennaro & Rita Ingardia Caturano	3,852	56	16634	10,270	\$18,375	1/16/2014	19377	\$1,000,000	Rancho San Juan Dev Llc
664-252-25	Teresa Chung	4,000	28	16634	10,692	\$20,214	1/23/2014	29196	\$1,138,000	Rancho San Juan Dev Llc
664-252-11	John Barry & Jorden Lynn Collins	3,400	24	16634	13,716	\$15,972	1/28/2014	35648	\$827,500	Rancho San Juan Dev Llc
664-252-24	Charles W & Valerie R Marinko	3,595	27	16634	10,097	\$18,191	1/29/2014	37710	\$994,000	Rancho San Juan Dev Llc
664-252-36	C James Fabian	3,595	30	16634	11,425	\$20,455	2/3/2014	43788	\$1,240,000	Rancho San Juan Dev Llc
664-252-26	Philip & Jessica Lau	3,852	29	16634	12,043	\$19,399	2/5/2014	47844	\$1,101,000	Rancho San Juan Dev Llc

VALINDA DWELLING UNIT SALES SUMMARIZED BY YEAR

APN	Ownership	DU Sz	Lot	Tract	Lot Tract Lot Sz	Prop. Tax	Rec. Date	Doc No.	Sale Price	Seller
664-252-38	Matthew Family Tr Wright	4,000	32	16634	16634 23,392	\$22,522	3/26/2014 113631	113631	\$1,409,000	Rancho San Juan Dev Llc
664-253-26	Justin Tracy	3,516	71	16634	11,857	\$19,968	5/30/2014 211056	211056	\$1,160,000	Fiore Paul
664-253-03	Dana Giraldin	3,595	80	16634	12,306	\$19,024	7/30/2014 305127	305127	\$1,100,000	Holcombe Brian & Keri
664-255-11	David B Hoffman	3,400	9	16634	17,153	\$18,876	11/10/2014	485185	\$1,114,000	Cross Trust
664-253-28	Bennett R & Laura G Barrios	3,400	69	16634	15,408	\$17,755	12/1/2014 514841	514841	\$1,007,000	Kichline Keith E & Kyla
		3,643	12						\$1,082,583	
									\$297.13	
664-252-20	Jerry H & Connie Skaggs	3,760	45	16634	10,668	\$19,014	8/6/2015	408725	\$1,228,000	Julien Robert & Darlene
664-252-28	Brian Flanagan	3,760	49	16634	13,212	\$17,292	9/24/2015	490939	\$1,255,000	Kennedy Douglas E & Tamara
664-252-16	Kessler Family Trust	3,852	20	16634	10,308	\$16,284	10/15/2015	541244	\$1,253,500	Newcomer Derek T
664-253-35	Ty & Tammy Meyer	3,760	62	16634	44,167	\$18,566	11/25/2015	605717	\$1,100,000	Stanford Guy T & Hollie L
664-252-27	Anthony M & Amy E Sfreddo	3,852	48	16634	19,751	\$19,996	4/1/2016	141472	\$1,300,000	Iske Valerie S
664-254-01	Patrick Klein	4,000	57	16634	30,208	\$19,275	5/5/2016	201353	\$1,400,000	Barber Family Trust
		3,831	9						\$1,256,083	
									\$327.90	
			69	Tota	Total Sold					
			(Lot 53	NAP - P	repaid Sp	(Lot 53 NAP - Prepaid Special Tax in Full)	Full)			

MIRADOR DWELLING UNIT SALES SUMMARAIZED BY YEAR

APN	Ownership	DU Sz	Lot	Tract	Lot Sz	Prop. Tax	Rec. Date	Doc No.	Sale Price	Seller
664-254-08	Jacob James & Janet Theologidy	4,329	41	16634	14,723	\$21,174	6/27/2014	254644	\$1,109,000	Rancho San Juan Dev Llc
664-254-09	Laurence D & Mary C Schannault	4,090	40	16634	22,358	\$18,886	7/22/2014	291835	\$1,158,500	Rancho San Juan Dev Llc
664-254-03	Cang Pham	4,399	38	16634	10,683	\$21,253	7/28/2014	299287	\$1,216,000	Rancho San Juan Dev Llc
664-254-02	Truong Do Can Pham	4,942	39	16634	14,092	\$22,365	7/28/2014	300145	\$1,245,000	Rancho San Juan Dev Llc
664-254-07	Ty G & Shelly L Rogers	4,090	45	16634	13,506	\$19,978	7/29/2014	301864	\$1,117,000	Rancho San Juan Dev Llc
664-254-06	Samer F H & Susan L Botros	4,329	43	16634	13,203	\$20,457	7/31/2014	307728	\$1,140,000	Rancho San Juan Dev Llc
664-254-05	Perry Mark W 2014 Living Trust	4,090	36	16634	12,708	\$19,913	8/4/2014	312077	\$1,117,000	Rancho San Juan Dev Lic
664-252-41	Joanna & Justin Stebbins	4,943	35	16634	10,376	\$23,567	8/6/2014	315222	\$1,359,000	Rancho San Juan Dev Llc
664-252-39	Paul Fiore	5,523	33	16634	12,953	\$24,632	8/12/2014	325194	\$1,468,000	Rancho San Juan Dev Llc
664-252-40	Scott Jaconetty	4,329	34	16634	10,986	\$22,159	10/31/2014	445974	\$1,302,000	Rancho San Juan Dev Llc
		4,506	10						\$1,223,150 \$271.43	
664-254-10	Stacie Greene	3,769	101	16634	24,215	\$15,595	1/21/2015	32233	\$1,115,500	Rancho San Juan Dev Llc
664-254-11	Jonathan & Michelle Collins	4,399	102	16634	20,056	\$17,203	1/23/2015	36458	\$1,056,000	Rancho San Juan Dev Llc
664-254-12	Navshad & Behnaaz Tavaria	4,152	103	16634	18,017	\$16,741	1/27/2015	40602	\$1,131,500	Rancho San Juan Dev Llc
664-254-14	Rick & Tamlyn Lee	4,152	105	16634	15,422	\$16,741	1/29/2015	46730	\$1,031,000	Rancho San Juan Dev Llc
664-254-15	Robert & Rosalie D Valdez	3,769	106	16634	12,645	\$15,595	2/5/2015	56750	\$1,048,500	Rancho San Juan Dev Llc
664-254-13	Mark D & Frances I Horan	4,116	104	16634	16,918	\$16,597	2/6/2015	57781	\$1,064,000	Rancho San Juan Dev Llc
664-254-16	Jesulito Santos	4,071	107	16634	13,482	\$15,551	2/20/2015	92915	\$1,279,000	Rancho San Juan Dev Llc
664-254-17	Tien Family Trust	5,368	108	16634	10,402	\$18,335	2/24/2015	96626	\$1,396,500	Rancho San Juan Dev Llc
664-254-18	Luis A & Ellen M Vinck	4,942	109	16634	10,472	\$17,656	2/25/2015	99571	\$1,239,000	Rancho San Juan Dev Lic
664-254-19	Scott T & Vonda S Simon	5,332	110	16634	10,546	\$18,335	3/2/2015	108357	\$1,495,000	Rancho San Juan Dev Lic
664-254-20	Gerardo D Perez	4,023	111	16634	11,217	\$15,299	3/6/2015	118733	\$1,180,000	Rancho San Juan Dev Llc
664-254-21	Dennis Fortier	4,014	112	16634	10,332	\$15,517	3/6/2015	118183	\$1,238,500	Rancho San Juan Dev Llc
664-254-22	Kevin Strom	4,942	113	16634	11,657	\$17,656	3/9/2015	120768	\$1,397,500	Rancho San Juan Dev Llc
664-254-23	Jfat Family Trust	4,329	114	16634	11,156	\$15,996	3/13/2015	130209	\$1,326,500	Rancho San Juan Dev Llc
664-255-04	Benner Maureen Trust	4,021	82	16634	10,263	\$13,440	4/21/2015	201177	\$1,236,500	Rancho San Juan Dev Llc
664-255-02	Justin R & Tracy Stiegler	4,014	83	16634	11,504	\$13,481	4/27/2015	212824	\$1,275,000	Rancho San Juan Dev Llc
664-255-21	Lori & Brandt Anderson	4,071	86	16634	14,309	\$13,568	5/8/2015	241765	\$1,106,000	Rancho San Juan Dev Llc
664-255-23	Carone Lawrence C Trust	4,023	100	16634	15,054	\$13,440	5/8/2015	240791	\$1,058,500	Rancho San Juan Dev Llc
664-255-20	David & Polly Cosgrove	4,507	26	16634	14,066	\$14,136	5/12/2015	244948	\$1,221,500	Rancho San Juan Dev Llc
664-255-19	Greg P & Jana L Giraldin	4,071	96	16634	15,381	\$13,568	5/13/2015	248874	\$1,163,000	Rancho San Juan Dev Llc
664-255-01	Mario & Asha P Soto	4,623	82	16634	12,084	\$15,159	5/15/2015	252984	\$1,350,000	Rancho San Juan Dev Llc
664-255-22	Jasbir S Bedi	4,071	66	16634	13,991	\$13,568	5/15/2015	253790	\$1,059,000	Rancho San Juan Dev Llc
664-255-16	Bennett Family Trust	4,329	93	16634	16,845	\$9,038	7/9/2015	357862	\$1,160,000	Rancho San Juan Dev Llc

MIRADOR DWELLING UNIT SALES SUMMARAIZED BY YEAR

APN	Ownership	DU Sz	Lot	Tract	Lot Sz	Prop. Tax	Rec. Date	Doc No.	Sale Price	Seller
664-255-17	James G & Diane M Medrick	4,071	94	16634	16,379	\$8,803	7/10/2015	362378	\$1,150,500	Rancho San Juan Dev Llc
664-255-14	Dillon Family Trust	4,071	91	16634	26,781	\$8,803	7/15/2015	368520	\$1,151,500	Rancho San Juan Dev Llc
664-255-15	Duane & Kristen Cameron	4,329	95	16634	16,200	\$5,038	7/20/2015	376013	\$1,147,500	Rancho San Juan Dev Llc
664-255-08	Frank Family Trust	4,942	89	16634	10,707	\$9,850	7/22/2015	379585	\$1,523,000	Rancho San Juan Dev Llc
664-255-13	Brittany B Jackson	5,332	90	16634	23,191	\$9,850	7/22/2015	381293	\$1,512,000	Rancho San Juan Dev Llc
664-255-05	Frank Bianchini	4,775	98	16634	10,995	\$9,850	7/30/2015	396150	\$1,491,000	Rancho San Juan Dev Llc
664-255-06	Brian & Dana L Mcreynolds	4,948	87	16634	11,321	\$9,850	7/30/2015	397190	\$1,432,000	Rancho San Juan Dev Llc
664-255-07	Chad & Juliet Hogan	4,071	88	16634	12,563	\$8,803	8/13/2015	424005	\$1,318,500	Rancho San Juan Dev Llc
664-255-18	Stephan & Ana B Mitchell	4,329	95	16634	16,100	\$6,038	8/21/2015	436368	\$1,184,000	Rancho San Juan Dev Llc
664-255-26	Richard & Sandra Neff	4,942	117	16634	10,276	\$232	12/23/2015	645258	\$1,363,500	Rancho San Juan Dev Llc
664-255-25	Ali R & Rachel Hamzeh	4,984	116	16634	10,528	\$535	12/31/2015	660001	\$1,652,500	Rancho San Juan Dev Llc
		4,409	34						\$1,251,588	
									\$283.88	
664-255-29	Haris Abdullah	4,984	120	16634	10,759	\$535	1/4/2016	1046	\$1,344,000	Rancho San Juan Dev Llc
664-255-24	Matthew H & Mayra G Zuniga	4,329	115	16634	11,430	\$535	1/22/2016	30528	\$1,273,000	Rancho San Juan Dev Llc
664-255-28	Vincent A Colombi	4,942	119	16634	10,633	\$232	2/3/2016	47704	\$1,417,000	Rancho San Juan Dev Llc
664-254-04	Michael L & Dawn M Wilson	4,152	37	16634	11,743	\$20,401	2/29/2016	82702	\$1,200,000	Dam Doan C
664-255-37	David Magnuson	3,769	128	16634	16,762	\$232	4/13/2016	158306	\$1,160,000	Rancho San Juan Dev Llc
664-255-27	Edward A & Kristin T Wagner	4,984	118	16634	10,677	\$232	4/15/2016	164678	\$1,408,000	Rancho San Juan Dev Llc
664-255-03	Clerc Family Trust 1998	4,984	84	16634	10,768	\$15,438	4/20/2016	173965	\$1,485,000	Anderson Nicklas V & Angela
664-255-40	Soussan Dowlatshahi	4,071	131	16634	11,870	\$232	4/21/2016	175630	\$1,273,000	Rancho San Juan Dev Llc
664-253-23	Leanne W Anderson	4,023	133	16634	12,179	\$232	4/27/2016	185269	\$1,201,500	Rancho San Juan Dev Llc
664-253-22	David L & Linda A Ryberg	3,769	134	16634	12,219	\$232	4/29/2016	190408	\$1,174,000	Rancho San Juan Dev Llc
664-253-19	Griffin & Arianne Fontanella	4,023	137	16634	15,351	\$232	5/6/2016	203113	\$1,140,000	Rancho San Juan Dev Llc
664-255-38	Keller Family Living Trust	4,942	129	16634	11,922	\$232	5/10/2016	208015	\$1,376,500	Rancho San Juan Dev Llc
664-255-39	Daniel & Erin R Bebereia	4,071	130	16634	12,319	\$232	5/10/2016	207919	\$1,277,500	Rancho San Juan Dev Llc
664-253-18	Sean Dejulia	4,071	138	16634	12,210	\$232	5/11/2016	211699	\$1,094,000	Rancho San Juan Dev Llc
664-253-21	Jason Monroe	4,329	135	16634	12,284	\$232	5/17/2016	220889	\$1,251,000	Rancho San Juan Dev Llc
664-255-36	Michael M Shapiro	3,769	127	16634	14,453	\$232	5/18/2016	222962	\$1,151,500	Rancho San Juan Dev Llc
664-253-17	Aaron & Lyndsay Iverson	4,329	139	16634	12,092	\$232	5/18/2016	222950	\$1,121,000	Rancho San Juan Dev Llc
664-253-16	Aaron K & Kathryn L Kim	4,456	140	16634	11,757	\$232	5/19/2016	225125	\$1,213,000	Rancho San Juan Dev Llc
		4,333	18						\$1,253,333	
									\$289.24	

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

The following is a brief summary of certain provisions of the Fiscal Agent Agreement relating to the above-referenced 2016 Bonds. This summary is not intended to be definitive and is qualified in its entirety by reference to such Fiscal Agent Agreement for the complete terms of the Fiscal Agent Agreement. Copies of the Fiscal Agent Agreement are available upon request from the Capistrano Unified School District.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary. All capitalized terms not defined in the Fiscal Agent Agreement or elsewhere in the Official Statement have the meaning(s) set forth in the Fiscal Agent Agreement.

- "Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Section 53311, et seq., of the Government Code of the State and any successor provisions thereto.
- "Administrative Expense Fund" means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Administrative Expense Requirement" means the amount \$53,060 for Fiscal Year 2016-17, escalating 2.00% each Fiscal Year thereafter, as further set forth in, and subject to the provisions and limitations of the Fiscal Agent Agreement.
- "Administrative Expenses" means the administrative costs with respect to the calculation and collection of the Special Taxes and any other costs related to the Bonds, including the fees and expenses of the Fiscal Agent and any persons, parties, consultants or attorneys employed pursuant to the Fiscal Agent Agreement, costs and legal expenses of foreclosure actions undertaken pursuant to the terms of the Fiscal Agent Agreement to the extent not recovered pursuant to statutory authorization, costs otherwise incurred by the Community Facilities District in order to carry out the authorized purposes of the Bonds, including statutory disclosure and reporting requirements for the Community Facilities District and reporting requirements, rebate compliance and "Administrative Expenses" as defined in the Rate and Method.
- "Annual Debt Service" means, with respect to the Outstanding Bonds, for each Bond Year, the sum of (a) the interest payable on such Bonds in such Bond Year, assuming the Bonds are retired as scheduled, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.
- "Authorized Investments" means, subject to the Fiscal Agent Agreement, any of the following investments, if and to the extent the same are at the time legal for investment of the School District's funds:
- (a) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, and which have a maximum term to maturity not to exceed three years.
- (b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, and which have a maximum term to maturity not to exceed three years, including:
 - Export-Import Bank

- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank.
- (c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America, and which have a maximum term to maturity not to exceed three years:
 - Senior debt obligations rated "Aaa" by Moody's and "AAA" by Standard & Poor's issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System.
- (d) Registered state warrants or treasury notes or bonds of the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State, which are rated in one of the two highest short-term or long-term rating categories by Moody's or Standard & Poor's.
- (e) Registered bonds, notes, warrants or other evidences of indebtedness of any local agency of the State, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the local agency, where the interest on such local agency obligation is exempt from federal and State income taxes and which are rated in one of the two highest short-term or long-term rating categories by Moody's or Standard & Poor's.
- (f) Deposit accounts, time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, which may include the Fiscal Agent or its affiliates, or a state or federal savings and loan association; provided, that the certificates of deposit shall be one or more of the following:
 - (1) Continuously and fully insured by the Federal Deposit Insurance Corporation.
 - (2) Continuously and fully secured by securities described in clause (a) or (b) above which shall have a market value, as determined on a marked-to-market basis calculated at least

weekly, and exclusive of accrued interest, or not less than 102% of the principal amount of the certificates of deposit.

- (g) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Moody's and Standard & Poor's, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an "A" or higher rating for the issuer's debentures, other than commercial paper, by Moody's and Standard & Poor's, provided that purchases of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation. Purchases of commercial paper may not exceed 20% of the invested proceeds of the Bonds.
- (h) A repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York the long-term debt of which is rated at least "AA" by Standard & Poor's or "Aa2" by Moody's, provided that all of the following conditions are satisfied:
 - (1) (A) the agreement is secured by any one or more of the securities described in clause (a) above of this definition of Authorized Investments ("Underlying Securities");
 - (B) the Underlying Securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least \$100,000,000 and which is independent of the issuer of the repurchase agreement ("Holder of Collateral") and the Underlying Securities have been transferred to the Holder of Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books); and
 - (C) the Underlying Securities are maintained at a market value, as determined on a marked-to-market basis calculated at least weekly, of not less than 103% of the amount so invested and at such levels and additional conditions not otherwise in conflict with the terms above as would be acceptable to Standard & Poor's or Moody's so as to maintain, respectively, an "AA" or "Aa2" rating in an "AA" or "Aa2" rated structured financing (with a market value approach).
 - (2) The repurchase agreement shall provide that if during its term the provider's rating by Moody's and Standard & Poor's is withdrawn or suspended or falls below "AA-" by Standard & Poor's or "Aa3" by Moody's, as appropriate, the provider must within 10 days of receipt of direction from the Community Facilities District, repurchase all collateral and terminate the agreement, with no penalty or premium to the Community Facilities District or Fiscal Agent.
- (i) Any investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution, the long-term unsecured obligations of which are rated "AA" or "Aa2" or better by Standard & Poor's or Moody's, respectively, at the time of initial investment. The investment agreement shall be subject to a downgrade provision with at least the following requirements:
 - (1) Within five Business Days after the Provider's long-term unsecured credit rating has been reduced below "AA-" by Standard & Poor's or below "Aa3" by Moody's (these events are called "Rating Downgrades"), the Provider shall give notice to the Fiscal Agent and the Community Facilities District and, within the five-day period, and for as long as the Rating Downgrade is in effect, shall deliver or transfer in the name of the Community Facilities District to the Fiscal Agent or a third party acceptable to the Community Facilities District acting solely as

agent therefore (Holder of Collateral) (other than by means of entries on the Provider's books) federal securities allowed as investments under clause (a) above with aggregate current market value equal to at least 105% of the principal amount of the investment agreement invested with the Provider at that time, and shall deliver additional such federal securities as needed to maintain an aggregate current market value equal to at least 105% of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly.

- (2) If the Provider's long-term unsecured credit rating is withdrawn, suspended, other than because of general withdrawal or suspension by Moody's or Standard & Poor's from the practice of rating that debt, or reduced below "A3" by Moody's or below "A-" by Standard & Poor's, the Provider shall give notice of the downgrade to the Community Facilities District and the Fiscal Agent and the Community Facilities District shall direct the Fiscal Agent to, upon five Business Days' written notice to the Provider, withdraw the investment agreement, with accrued but unpaid interest thereon to the date of withdrawal, and terminate such agreement.
- (j) A taxable or tax exempt government money market portfolio mutual fund restricted to obligations with either maturities of one year or less or a dollar weighted average maturity of 120 days or less, and either issued, guaranteed or collateralized as to payment of principal and interest by the full faith and credit of the United States of America or rated in one of the three highest categories by Moody's or Standard & Poor's. Such money market funds may include funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services.
- (k) The Local Agency Investment Fund referred to in Section 16429.1 of the Government Code of the State to the extent the Fiscal Agent may deposit and withdraw funds directly.
- "Authorized Representative(s)" or "District Representative(s)" means an officer of the School District authorized to provide written directives on behalf of the Community Facilities District, which shall include the School District's Deputy Superintendent, Business and Support Services, and such other persons as shall be designated in writing by the Deputy Superintendent, Business and Support Services .
- "Board" or "Board of Trustees" means the Board of Trustees of the Capistrano Unified School District.
 - "Bond" or "Bonds" means the 2016 Bond(s) and any Parity Bond(s).
 - "Bond Authorization Resolution" has the meaning set forth in the Fiscal Agent Agreement.
 - "Bond Counsel" means a firm of nationally recognized bond attorneys.
- **"Bond Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Bond Register"** means the books which the Fiscal Agent shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.
- **"Bond Year"** means each twelve month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, both dates inclusive.
- "Bondowner(s)" or "Owner(s)" means the person or persons in whose name or names any Bond is registered.

- **"Business Day"** means a day which is not a Saturday or a Sunday or a day on which banks in Los Angeles, California, and New York, New York, are not required or permitted to be closed.
 - "City" means the City of San Juan Capistrano.
- "City Facilities" means public facilities of the City authorized to be constructed, acquired and financed under the Formation Resolution, the Bond Authorization Resolution and the Joint Community Facilities Agreement.
- "City Facilities Account" means the account of that name within the Construction Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Code" means the Internal Revenue Code of 1986, as amended, and any successor provisions thereto.
- "Community Facilities District" means Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills).
- "Completion Date" means the date on which the Project, or portion thereof, is completed and all Project Costs have been paid as evidenced by a certificate to that effect delivered to the Fiscal Agent by the Community Facilities District.
- "Construction Fund" means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Continuing Disclosure Certificate" shall mean a Community Facilities Continuing Disclosure Certificate provided by the School District on behalf of the Community Facilities District, dated the Delivery Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof, with respect to the 2016 Bonds or any Parity Bonds.
- "Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the Community Facilities District or School District and related to the formation of the Community Facilities District and the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, cost of reproducing and binding documents, closing costs, appraisal costs, filing and recording fees, fees and expenses of counsel to the Community Facilities District or School District, initial fees and expenses of the Fiscal Agent, including its first annual administration fee and fees of its counsel, expenses incurred by the Community Facilities District and the School District in connection with the issuance of the Bonds and the establishment of the Community Facilities District, legal fees and charges, including Bond Counsel and Disclosure Counsel, financial advisor fees, special tax consultant's fees, appraiser's fees, market absorption consultant's fees, and other consultants fees, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing, including any funds advanced by the Original Landowner and Developer for the foregoing items of expense.
- "Costs of Issuance Account" means the account of that name within the Construction Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Dated Date" or "Delivery Date" means the date the 2016 Bonds are delivered, and with respect to Parity Bonds, the date such Parity Bonds were or are delivered.

"Depository" means any depository which holds Bonds pursuant to the terms of the Fiscal Agent Agreement, initially with respect to the Bonds, being DTC.

"Developed Property" shall have the same meaning set forth in the Rate and Method.

- **"Developer"** means Rancho San Juan Development LLC, a Delaware limited liability company, and its successors to the Undeveloped Property or the Developed Property, or otherwise, and its assigns, excluding individual homeowners of residential assessor parcels within the Community Facilities District.
- **"Dissemination Agent"** means David Taussig & Associates or any successor dissemination agent appointed by the Community Facilities District pursuant to the Continuing Disclosure Certificate.
- **"DTC"** means The Depository Trust Company, 55 Water Street, 25th Floor, New York, New York, 10041-0099, Attn: Call Notification Department, Fax (212) 855-5004.

"Election" has the meaning set forth in the Fiscal Agent Agreement.

"Excess Investment Earnings" shall mean an amount equal to the sum of:

- (a) the excess of
- (i) the aggregate amount earned from the Delivery Date on all Nonpurpose Investments in which Gross Proceeds are invested (other than amounts attributable to an excess described in this subparagraph (a)), over
- (ii) the amount that would have been earned if the yield on such Nonpurpose Investments (other than amounts attributable to an excess described in this subparagraph (i)) had been equal to the Yield on the Bonds,

plus

(b) any income attributable to the excess described in subparagraph (a).

In determining the amount of Excess Investment Earnings, there shall be excluded any amount earned on any fund or account which is used primarily to achieve a proper matching of revenues and annual debt service on the Bonds during each Bond Year and which is depleted at least once a year except for a reasonable carryover amount not in excess of the greater of one year's earnings on such fund or account or one-twelfth (1/12) of Annual Debt Service on the Bonds, as well as amounts earned on said earnings. The Community Facilities District intends that the Bond Fund, including the Principal Account and the Interest Account established therein, the Special Tax Fund and the Redemption Fund will be the type of funds described in the preceding sentence. The Fiscal Agent shall have no responsibility to determine Excess Investment Earnings and may rely on the calculations provided by the Community Facilities District or any arbitrage consultant retained by the Community Facilities District.

"Federal Securities" means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State for funds held by the Fiscal Agent:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of

America, including, without limitation, such of the foregoing which are commonly referred to as "stripped" obligations and coupons; or

- (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.
- **"Fiscal Agent"** means U.S. Bank National Association, a national banking association, and its successors and assigns or any and other fiscal agent which may be appointed pursuant to the Fiscal Agent Agreement.
- **"Fiscal Agent Agreement"** means the Fiscal Agent Agreement, as amended or supplemented pursuant to the terms of the Fiscal Agent Agreement.
 - "Fiscal Year" means the period from July 1 to June 30 in any year.
 - "Formation Resolution" has the meaning set forth in the Fiscal Agent Agreement.
- "Gross Proceeds" means any proceeds of the Bonds and any funds (other than proceeds of the Bonds) that are part of a reserve or replacement fund for the Bonds within the meaning of Section 1.148-1(b) of the Regulations.
- "Gross Taxes" means the amount of all Special Taxes collected within the Community Facilities District and proceeds from the sale of property collected pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes.
- "Incremental Payment Obligation" means the school site acquisition obligation of the School District as so defined in the Mitigation Agreement, and being paid in whole or in part from proceeds of the Bonds pursuant to the Fiscal Agent Agreement as Project Costs.
- "Incremental Payment Subaccount" means the subaccount of that name within the School Facilities Account of the Construction Fund for deposit of the Incremental Payment Obligation, or portion thereof, established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Independent Financial Consultant" means a consultant or firm of such consultants generally recognized to be qualified in the field of implementation and administration of community facilities districts, or the financial consulting field, appointed and paid by the Community Facilities District or the School District and who, or each of whom:
- (a) is independent of the Community Facilities District and the School District or any of the property owners within the Community Facilities District;
- (b) does not have any substantial interest, direct or indirect, with the Community Facilities District, the School District, or any of the property owners within the Community Facilities District; and
- (c) is not an officer or employee of the Community Facilities District or the School District, or an owner, officer or employee of any of the property owners within the Community Facilities District,

but who may be regularly retained to make annual or other reports to the Community Facilities District or the School District.

- "Interest Account" means the account of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Interest Payment Date" means, March 1 and September 1 of each year during which Bonds are Outstanding, commencing on March 1, 2017 with respect to the 2016 Bonds.
- "Joint Community Facilities Agreement" means the "First Amended Joint Community Facilities Agreement" dated June 13, 2011, by and among the School District, the Community Facilities District, the City, the Original Landowner and the Developer
- **"Legislative Body"** means the Board of Trustees acting as the Legislative Body of the Community Facilities District.
- **"Mandatory Redemption Account"** means the account of that name within the Redemption Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Mandatory Sinking Payments" means the amounts to be applied to the redemption of term bonds in accordance with the schedule set forth in the Fiscal Agent Agreement thereof and any future term bonds under a subsequent schedule set forth in any Supplement.
- **"Maximum Annual Debt Service"** means the maximum sum obtained for any remaining Bond Year prior to the final maturity on the Bonds by totaling the following for each Bond Year:
- (a) the principal amount of all Outstanding Bonds payable in such Bond Year whether at maturity or by redemption together with a premium thereon, if any premium is payable; and
- (b) the interest payable on the aggregate principal amount of Bonds Outstanding in such Bond Year, assuming the Bonds are retired as scheduled.
- **"Mitigation Agreement"** means the "First Amended Impact Mitigation Agreement Related to Proposed Community Facilities District No. 2005-1," dated June 13, 2011, entered into by and among the School District, the Community Facilities District, the Original Landowner, and the Developer, including any further amendments.
 - "Moody's" means Moody's Investors Services and its successors.
- "Net Taxes" means the amount of all Gross Taxes minus an amount equal to the Administrative Expense Requirement, as further set forth in the Fiscal Agent Agreement.
- **"Nominee"** means the nominee of DTC, which may be Cede & Co., as determined from time to time pursuant to the Fiscal Agent Agreement.
- "Nonpurpose Investments" means any security, investment, obligation, annuity, investment-type property, specified private activity bond or any other type of investment property defined in Section 148 of the Code in which Gross Proceeds are invested (other than tax-exempt securities which are described in Section 103(a) of the Code) and which is not acquired to carry out the governmental purpose of the Bonds.

- "Optional Redemption Account" means the account of that name within the Redemption Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
 - "Ordinance" means Ordinance No. 1112-1 adopted by the Legislative Body on July 11, 2011.
- "Original Landowner" means Whispering Hills, LLC, a Delaware limited liability company, and its successors to the Undeveloped Property or the Developed Property, or otherwise, and its assigns, but not Developer, and excluding individual homeowners of residential assessor parcels within the Community Facilities District.
 - "Outstanding" means all Bonds theretofore issued by the Community Facilities District, except:
- (a) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation:
- (b) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms of the Fiscal Agent Agreement; and
 - (c) Bonds paid and discharged pursuant to the Fiscal Agent Agreement.
- **"Parity Bonds"** means all bonds, notes or similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided for in the Fiscal Agent Agreement, rank on parity with the 2016 Bonds.
- "Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.
- **"Prepaid Special Taxes"** means all Special Taxes prepaid to the Community Facilities District pursuant to the Rate and Method during the term of the Fiscal Agent Agreement, less related Administrative Expenses.
- **"Prepayment Account"** means the account of that name within the Special Tax Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Principal Account"** means the account of that name within the Bond Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- "Principal Corporate Trust Office" means the corporate trust office of the Fiscal Agent, which, at the date of execution of the Fiscal Agent Agreement, is located at 633 W. Fifth Street, 24th Floor, Los Angeles, California 90071, or such other office(s) as the Fiscal Agent may designate from time to time.
- **"Project"** means the "CFD Facilities," or any portion thereof, as defined in the Formation Resolution and referred to in the Community Facilities District Report for CFD No. 2005-1 dated July 26, 2005, which includes the School Facilities and the City Facilities.
- **"Project Costs"** means the costs of design, acquisition, construction and installation of the Project and all costs related thereto. Project Costs may include the payment, or prepayment, of lease payments or installment payments necessary for the acquisition of all or part of the Project.

- "Purchase Price" for the purpose of computation of the Yield of the Bonds, has the same meaning as the term "issue price" in Sections 1273 (b) and 1274 of the Code, and, in general, means the initial offering price to the public (not including bond houses and brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Bonds are sold or, if the Bonds are privately placed, the price paid by the underwriter or the acquisition cost of the underwriter. The term "Purchase Price," for the purpose of computation of the Yield of Nonpurpose Investments, means the "fair market value" of the Nonpurpose Investments on the date of use of Gross Proceeds for acquisition thereof, or, if later, on the date that Investment Property (as defined in Section 148(b)(2) and (3) of the Code) constituting a Nonpurpose Investment becomes a Nonpurpose Investment of the Bonds, as the case may be.
- **"Rate and Method"** means the First Amended Rate and Method of Apportionment for Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills), as set forth in the Ordinance as such may be amended or interpreted from time to time.
 - "Rating Agencies" means S&P and Moody's.
- **"Rebate Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Record Date"** means the 15th day of the calendar month preceding an Interest Payment Date whether or not such day is a Business Day.
- **"Redemption Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Regulations"** means any temporary, proposed or final regulations of the United States Department of Treasury with respect to obligations issued pursuant to Section 103 and Sections 141 to 150 of the Code.
- "Reserve Fund" means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Reserve Requirement"** means with respect to the Bonds, an amount, as of any date of calculation, equal to the least of: (i) 10% of the original principal amount of the Bonds, (ii) Maximum Annual Debt Service, or (iii) 125% of average Annual Debt Service on the Bonds.
- **"Responsible Officer"** of the Fiscal Agent means and includes the president, every senior vice president, every vice president, every assistant vice president, every trust officer or any other Authorized Representative of the Fiscal Agent at its Principal Corporate Trust Office.
 - "School District" means the Capistrano Unified School District.
- **"School Facilities"** means the facilities of the School District authorized to be constructed, acquired and financed under the Formation Resolution and Bond Authorization Resolution.
- **"School Facilities Account"** means the account of that name within the Construction Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

- "Securities Depository(ies)" means initially DTC and, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories as the Community Facilities District may designate in a certificate delivered to the Fiscal Agent.
- "Sinking Fund Redemption Account" means the account of that name within the Redemption Fund established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Special Tax Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.
- **"Special Taxes"** means the special taxes levied by the Legislative Body in accordance with the Rate and Method within the Community Facilities District pursuant to the Act, the Formation Resolution, the Election and the Ordinance.
 - "Standard & Poor's" or "S&P" means Standard & Poor's Ratings Group and its successors.
 - "State" means the State of California.
 - "Subsequent Election" has the meaning set forth in the Fiscal Agent Agreement.
- **"Surplus Facilities Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement
- **"Supplement"** means any supplemental agreement amending or supplementing the Fiscal Agent Agreement.
- **"2016 Bond"** or **"2016 Bonds"** means the Community Facilities District No. 2005-1 (Whispering Hills) of the Capistrano Unified School District Special Tax Bonds, Series 2016.
- **"Tax Certificate"** means the certificate of that name to be executed by an Authorized Representative of the Community Facilities District on the Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.
 - "Taxable Property" has the meaning set forth in the Rate and Method.
 - "Undeveloped Property" has the meaning set forth in the Rate and Method.
- "Yield" means that yield which, when used in computing the present worth of all payments of principal and interest (or other payments in the case of Nonpurpose Investments which require payments in a form not characterized as principal and interest) on a Nonpurpose Investment or on the Bonds produces an amount equal to the Purchase Price of such Nonpurpose Investment or the Bonds, as the case may be, all computed as prescribed in the applicable Regulations.

ISSUANCE OF THE 2016 BONDS

The 2016 Bonds are being issued pursuant to the Act, the Resolution of Issuance with respect to the 2016 Bonds and the Fiscal Agent Agreement in the amounts and maturities set forth in the Fiscal Agent Agreement. Under and pursuant to the Act, the 2016 Bonds are being issued for the purposes of financing the acquisition and/or construction by the School District of property/improvements from a deposit to the Project Subaccount of the School Facilities Account of the Construction Fund, the Incremental Payment Obligation, or a portion thereof, by a deposit to the Incremental Payment Subaccount of the School Facilities Account of the Construction Fund, and certain City Facilities from a deposit to the City Facilities Account

of the Construction Fund, funding the Reserve Requirement and paying Costs of Issuance for the 2016 Bonds. The terms of the 2016 Bonds, and a description of the 2016 Bonds, including registration and transfer matters, are set forth in the Fiscal Agent Agreement (See "INTRODUCTION," "THE 2016 BONDS" and "THE FINANCING PLAN").

Limited Obligation

The Bonds shall be and are limited obligations of the Community Facilities District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and amounts in certain funds and accounts created pursuant to the Fiscal Agent Agreement as specified therein. The Net Taxes are pledged for the payment of the Bonds pursuant to the terms of the Fiscal Agent Agreement.

The Bonds and interest thereon are not payable from the general fund of the Community Facilities District or the School District. Except with respect to the Net Taxes, neither the credit nor the taxing power of the Community Facilities District, or the School District is pledged for the payment of the Bonds or interest thereon, and no Owner of the Bonds may compel the exercise of the taxing power by the Community Facilities District or the School District or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption of any thereof are not a debt of the Community Facilities District (except to the limited extent set forth in the Fiscal Agent Agreement) or the School District, the State nor any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance, upon any property or income, receipts or revenues of the Community Facilities District or the School District, except the Net Taxes which are, under the terms of the Fiscal Agent Agreement, pledged for the payment of the Bonds and interest thereon. Neither the members of the Legislative Body or the Board nor any persons executing the Bonds are liable personally for the Bonds by reason of the issuance thereof.

Pursuant to the Act and the Fiscal Agent Agreement, the Bonds shall be equally payable from the Net Taxes without priority for number, date of the Bonds, date of sale, date of execution or date of delivery, and the payment of the interest on and principal of the Bonds and any premiums upon the redemption thereof shall be exclusively paid from the Net Taxes and amounts held in certain funds and accounts created under the Fiscal Agent Agreement as specified therein. All of the Net Taxes are pledged for the payment of the Bonds, and such Net Taxes and any interest earned on the Net Taxes shall constitute a trust fund for the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon are unpaid the Net Taxes and interest thereon shall not be used for any other purpose, except as permitted by the Fiscal Agent Agreement or any Supplement, and shall be held in trust for the benefit of the Bondowners and shall be applied pursuant to the Fiscal Agent Agreement, or any Supplement to the Fiscal Agent Agreement as modified pursuant to provisions therein. Notwithstanding any provision contained in the Fiscal Agent Agreement to the contrary, Net Taxes deposited in the Administrative Expense Fund, the Surplus Facilities Fund and the Rebate Fund shall no longer be considered to be pledged to the Bonds, and the Administrative Expense Fund, the Construction Fund, the Rebate Fund and the Surplus Facilities Fund (including all accounts of the foregoing funds) shall not be construed as trust funds held for the benefit of the Bondowners.

In the event that the Fiscal Agent lacks sufficient amounts to make timely payment of principal of and interest and premium upon redemption, if any, on the Bonds when due, such principal of and interest and premium on the Bonds shall be paid from available amounts held by the Fiscal Agent in the Special Tax Fund, Bond Fund, and Reserve Fund, or Redemption Fund under the terms of the Fiscal Agent Agreement (including all accounts of the foregoing funds) (but not including those amounts deposited in the Construction Fund, Administrative Expense Fund, the Rebate Fund and the Surplus Facilities Fund,

including all accounts of the foregoing funds), in accordance with such terms without preference or priority of interest over principal or principal over interest, or of any installment of principal or interest over any other installment of principal or interest, ratably to the aggregate amount of such principal and interest.

Nothing in the Fiscal Agent Agreement or any Supplement shall preclude the redemption of any Bonds subject to call and redemption prior to maturity, and payment of the Bonds from proceeds of refunding bonds issued under the Act as the same now exists or is hereafter amended, or under any other law of the State (See "SECURITY FOR THE 2016 BONDS").

Funds and Accounts

The Fiscal Agent Agreement specifies funds and accounts to be maintained by the Fiscal Agent, as follows:

<u>Special Tax Fund</u>. The Special Taxes and other amounts constituting Gross Taxes collected by the Community Facilities District at any time (exclusive of Prepaid Special Taxes received which shall be deposited into the Prepayment Account of the Special Tax Fund) shall be transferred no later than 10 days after receipt thereof to the Fiscal Agent and shall be held in the Special Tax Fund (exclusive of the Administrative Expense Requirement) for the benefit of the Bondowners and shall, exclusive of the Prepaid Special Taxes held in the Prepayment Account, be transferred or applied to the funds and accounts set forth below, in the priority set forth below and at the times and in the amounts and in accordance with the Fiscal Agent Agreement:

- (a) to the Administrative Expense Fund, an amount specified in writing by the Community Facilities District, up to the Administrative Expense Requirement;
- (b) to the Interest Account of the Bond Fund an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds on such Interest Payment Date;
- (c) to the Principal Account of the Bond Fund, an amount up to the amount needed to make the principal payment due on the Bonds during the current Bond Year;
- (d) to the Sinking Fund Redemption Account of the Redemption Fund an amount up to the amount needed to make the Mandatory Sinking Payments due on the Bonds during the current Bond Year;
- (e) to the Reserve Fund, the amount, if any, necessary to replenish the Reserve Fund to the Reserve Requirement;
- (f) provided all the amounts due in the current Bond Year are funded under (b), (c), (d) and (e) above, to the extent there are additional Administrative Expenses, to the Administrative Expense Fund in the amount specified in writing by the Community Facilities District required to bring the balance therein to the amount needed to pay such Administrative Expenses;
- (g) any remaining Special Taxes and other amounts constituting Gross Taxes shall remain in the Special Tax Fund subject to the provisions of (h), below; and
- (h) any remaining Special Taxes and other amounts constituting Gross Taxes, if any, shall remain in the Special Tax Fund until the end of the Bond Year. Provided there are no Special Taxes levied or projected to be levied on Undeveloped Property at the end of the Bond Year, any remaining funds in the Special Tax Fund which are not required to cure a delinquency in the payment of principal and interest on the Bonds (including payment of Mandatory Sinking Payments due during the current Bond Year), to

restore the Reserve Fund as provided for in (e), above, or to pay current or pending Administrative Expenses as provided for in (a) and (f), above, shall be deposited in the accounts of the Surplus Facilities Fund as established and maintained pursuant to the Fiscal Agent Agreement, and all such transferred amounts shall be free and clear of any lien thereon or under the Fiscal Agent Agreement, or pledge to the Bondholders, subject to the further requirements set forth as follows: (i) any funds which are required to cure any delinquency described above shall be retained in the Special Tax Fund and expended or transferred, at the earliest possible date, for such purpose, and (ii) prior to any transfers to the Surplus Facilities Fund the Fiscal Agent shall check that the Reserve Requirement level will be met as of the first day of the next Bond Year (September 2).

At the date of the redemption, defeasance or maturity of the last Bonds and after all principal and interest then due on any Bonds has been paid or provided for, all other covenants are complied with and all fees and expenses of the Fiscal Agent have been paid, monies in the Special Tax Fund will be transferred to the Community Facilities District by the Fiscal Agent and may be used by the Community Facilities District for any lawful purpose under the Community Facilities District proceedings (See "SECURITY FOR THE 2016 BONDS - Special Tax Fund").

<u>Prepayment Account of the Special Tax Fund</u>. Prepaid Special Taxes collected by the Community Facilities District (net of any costs of collection) shall be transferred, no later than 10 days after receipt thereof, to the Fiscal Agent and the Community Facilities District shall direct the Fiscal Agent to deposit the Prepaid Special Taxes in the Prepayment Account of the Special Tax Fund. The Prepaid Special Taxes shall be held in the Prepayment Account for the benefit of the Bondowners and shall be transferred by the Fiscal Agent to the Mandatory Redemption Account of the Redemption Fund to call Bonds on the next date for which notice can be given in accordance with the special mandatory redemption provisions as set forth in the Fiscal Agent Agreement (See "SECURITY FOR THE 2016 BONDS - Special Tax Fund").

Administrative Expense Fund. Upon receipt of Gross Taxes and the written direction of the Community Facilities District, the Fiscal Agent shall transfer from the Special Tax Fund to the Administrative Expense Fund the amount that the Community Facilities District has determined, and of which the Community Facilities District has notified the Fiscal Agent in writing prior to such transfer date, will be necessary to bring the balance in the Administrative Expense Fund to equal the amount specified by the Community Facilities District as necessary to meet Administrative Expenses until the collection of Special Taxes in the next Fiscal Year, subject to the maximum limit of the Administrative Expense Requirement. Additional Administrative Expenses may be funded from additional deposits to the Administrative Expense Fund in accordance with the Fiscal Agent Agreement. Monies in the Administrative Expense Fund shall not be construed as a trust fund for the benefit of the Bondowners and are not pledged for payment of the principal of, or interest or premium on, the Bonds, and are not subject to any Bondowner's Lien.

<u>Bond Fund</u>. The Bond Fund (in which there are established an Interest Account and a Principal Account) is used to disperse payments of principal and interest to the Bondowners on each respective Interest Payment Date. Monies in the Interest Account, are allocated to the payment of interest due on each Interest Payment Date and monies in the Principal Account are allocated to the repayment of principal on the Bonds on the corresponding Interest Payment Date (See "SECURITY FOR THE 2016 BONDS - Bond Fund").

<u>Reserve Fund</u>. There shall be maintained in the Reserve Fund an amount equal to the Reserve Requirement. Notwithstanding the foregoing, in the event of a redemption or partial defeasance of the Bonds, the Reserve Requirement shall thereafter be re-determined by the Community Facilities District and communicated to the Fiscal Agent in writing and any funds in excess of such re-determined Reserve Requirement shall be utilized as set forth in the Fiscal Agent Agreement. If Special Taxes are prepaid and

Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of Bonds to be redeemed and the original principal of the Bonds, but not in excess of the amount of funds available as a result of the re-determination of the Reserve Requirement) will be applied to the redemption of the Bonds as provided in the Fiscal Agent Agreement.

Monies in the Reserve Fund shall be used solely for the purpose of: (i) making transfers to the Bond Fund or Redemption Fund to pay the principal of, including Mandatory Sinking Payments, and interest on Bonds when due to the extent that monies in the Interest Account and the Principal Account of the Bond Fund or monies in the Sinking Fund Redemption Account are insufficient therefor; (ii) making any required transfer to the Rebate Fund pursuant to the Fiscal Agent Agreement upon written direction from the Community Facilities District, (iii) making any transfers to the Bond Fund or Redemption Fund in connection with prepayments of the Special Taxes; (iv) paying the principal and interest due on Bonds in the final Bond Year, and (v) application to the defeasance of Bonds in accordance with the Fiscal Agent Agreement. If the amounts in the Interest Account or the Principal Account of the Bond Fund and the Sinking Fund Redemption Account of the Redemption Fund are insufficient to pay the principal of, including Mandatory Sinking Payments, or interest on the Bonds when due, the Fiscal Agent shall, one Business Day prior to an Interest Payment Date, withdraw from the Reserve Fund for deposit in the Interest Account and the Principal Account of the Bond Fund, or the Sinking Fund Redemption Account of the Redemption Fund, monies necessary for such purpose. Following any transfer to the Interest Account or the Principal Account of the Bond Fund, or the Sinking Fund Redemption Account of the Redemption Fund, the Fiscal Agent shall notify the Community Facilities District of the amount needed to replenish the Reserve Fund to the Reserve Requirement and the Community Facilities District shall include such amount as is required at that time to correct such deficiency in the next Special Tax levy to the extent of the permitted maximum Special Tax rates.

Monies in the Reserve Fund shall be invested in accordance with the Fiscal Agent Agreement. Notwithstanding any provision therein to the contrary, monies in the Reserve Fund in excess of the Reserve Requirement (exclusive of Excess Investment Earnings identified in writing by the Community Facilities District) shall be withdrawn on or prior to 15 days prior to each Interest Payment Date and transferred to the Interest Account of the Bond Fund, and any remaining excess shall be transferred to the Principal Account of the Bond Fund or to the Sinking Fund Redemption Account of the Redemption Fund to the extent required to make any principal payment on the next following September 1. The Fiscal Agent shall transfer Excess Investment Earnings from the Reserve Fund to the Rebate Fund upon written direction of the Community Facilities District pursuant to the Fiscal Agent Agreement. (See "SECURITY FOR THE 2016 BONDS - Reserve Fund")

<u>Redemption Fund</u>. The Redemption Fund includes an Optional Redemption Account, Sinking Fund Redemption Account and Mandatory Redemption Account. Each of the redemption accounts is used for the temporary retention of monies allocated to the redemption of 2016 Bonds corresponding to that account. Monies in each such account shall be applied for such redemption purpose (See "THE 2016 BONDS - Redemption").

<u>Construction Fund</u>. The Fiscal Agent Agreement establishes the Construction Fund, in which there is a Costs of Issuance Account, School Facilities Account (in which there are established a "Project Subaccount" and an "Incremental Payment Subaccount") and City Facilities Account.

A portion of the proceeds of the 2016 Bonds shall be deposited in the School Facilities Account and the City Facilities Account. Monies deposited in the School Facilities Account will be deposited into the Incremental Payment Subaccount and will be expended to pay the Incremental Payment Obligation, or portion thereof, pursuant to the Mitigation Agreement, except as otherwise provided in the Fiscal Agent Agreement. Monies deposited in the City Facilities Account will be expended to pay Project Costs for City

Facilities, except as otherwise provided in the Fiscal Agent Agreement. Monies in the Costs of Issuance Account shall be disbursed from time to time to pay Costs of Issuance.

<u>Rebate Fund</u>. The Rebate Fund is established by the Fiscal Agent Agreement for the receipt and payment of arbitrage earnings to the U.S. Government as required under the terms of the Fiscal Agent Agreement and the Tax Certificate.

<u>Surplus Facilities Fund</u>. Pursuant to the Fiscal Agent Agreement, monies on deposit in the Surplus Facilities Fund are not pledged for the payment of the principal of, or interest or premium on, the Bonds, and are not subject to any Bondholder's lien. Monies on deposit in the Surplus Facilities Fund may be used by the Community Facilities District, at its option, for acquisition and/or construction of the Project; to make deposits to the Rebate Fund; for the optional redemption of any of the Bonds pursuant to the Fiscal Agent Agreement; or for payment of principal of, including Mandatory Sinking Payments, or interest on the Bonds.

<u>Investments</u>. The Fiscal Agent shall maintain separate books and records regarding the investment of monies in any of the funds, accounts or subaccounts established pursuant to the Fiscal Agent Agreement. Authorized Investments shall be deemed at all times to be a part of such funds, accounts or subaccounts. Any loss resulting from such Authorized Investments shall be charged to such funds, accounts or subaccount. Subject to limitations set forth as to each of the funds or accounts set forth in the Fiscal Agent Agreement, the limitations as to maturities set forth in the Fiscal Agent Agreement and any additional limitations or requirements established by the Community Facilities District and consistent with the foregoing, the Fiscal Agent shall invest the amounts on deposit in all funds, accounts or subaccounts in Authorized Investments as directed in writing by the Community Facilities District, subject to the restrictions set forth in the Fiscal Agent Agreement. (See "SECURITY FOR THE 2016 BONDS - Investment of Moneys in Funds").

Redemption of 2016 Bonds

The 2016 Bonds are subject to optional redemption, mandatory sinking fund redemption, and special mandatory redemption from Prepaid Special Taxes in accordance with the terms of the Fiscal Agent Agreement. (See "THE 2016 BONDS - Redemption").

Covenants

So long as any of the Bonds are Outstanding and unpaid, the Community Facilities District makes the following covenants with the Owners under the provisions of the Act and the Fiscal Agent Agreement and all Supplements (to be performed by the Community Facilities District or its proper officers, agents or employees), which covenants are necessary, convenient and desirable to secure the Bonds; provided, however, that said covenants do not require the Community Facilities District to expend any funds or monies other than the Net Taxes or any monies deposited in the funds and accounts created under the Fiscal Agent Agreement and legally available therefor.

Covenant 1. <u>Punctual Payment</u>. The Community Facilities District will duly and punctually pay, or cause to be paid, the principal of and interest on every Bond issued under the Fiscal Agent Agreement, together with the premium thereon, if any be payable, on the date, at the place and in the manner mentioned in the Bonds and in accordance with the Fiscal Agent Agreement and any Supplement to the extent Net Taxes are available therefor, and that the payments into the Bond Fund and the Reserve Fund will be made, all in strict conformity with the terms of the Bonds and the Fiscal Agent Agreement, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement, and that time

of such payment and performance is of the essence of the Community Facilities District's contract with the Bondowners.

Covenant 2. <u>Levy and Collection of Special Taxes</u>. Subject to the maximum Special Tax rates, the Community Facilities District will comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes. The Community Facilities District shall fix and levy the amount of Special Taxes within the Community Facilities District required for the payment of principal of and interest on Outstanding Bonds becoming due and payable during the ensuing year including any necessary replenishment or expenditure of the Reserve Fund for the Bonds, an amount equal to the Administrative Expense Requirement and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes.

On or before each June 1, the Fiscal Agent shall provide a written notice to the Community Facilities District stating the amounts then on deposit in the various funds and accounts established by the Fiscal Agent Agreement. The receipt of such notice by the Community Facilities District shall in no way affect the obligations of the Community Facilities District under the following paragraphs. Upon receipt of a copy of such notice, the Community Facilities District shall communicate with the Orange County Assessor or other appropriate official of the County of Orange to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The Community Facilities District has agreed to retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2013-14, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Orange County Auditor-Controller will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, and approval by the Legislative Body, the Community Facilities District shall prepare or cause to be prepared, and shall transmit to the Orange County Auditor-Controller, such data as the Orange County Auditor-Controller requires to include the levy of the Special Taxes on the next secured tax roll.

The Special Taxes shall be payable and collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property; provided, the Legislative Body may provide for direct collection of the Special Taxes in certain circumstances.

The fees and expenses of the Independent Financial Consultant retained by the Community Facilities District to assist in computing the levy of the Special Taxes under the Fiscal Agent Agreement and any reconciliation of amounts levied to amounts received, as well as the costs and expenses of the Community Facilities District (including a charge for staff time) in conducting its duties under the Fiscal Agent Agreement, shall be an Administrative Expense under the Fiscal Agent Agreement.

Covenant 3. Commence Foreclosure Proceedings. The Community Facilities District covenants for the benefit of the Owners of the Bonds that it: (i) will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$15,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due, (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Fund is at less than its required balance, and (iii) will diligently pursue

such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing and provided that the County of Orange is then including the Community Facilities District in the County's "Teeter Plan" method of apportionment and distribution of community facilities district special taxes, the Community Facilities District may elect to defer foreclosure proceedings on any parcel which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in excess of \$15,000 so long as (1) the amount in the Reserve Fund is at least equal to the Reserve Requirement, and (2) with respect to the Bonds, the Community Facilities District is not in default in the payment of the principal of or interest on the Bonds. The Community Facilities District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Fund at the Reserve Requirement or to avoid a default in payment on the Bonds.

The Community Facilities District covenants 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, to bring the amount on deposit in the Reserve Fund up to the Reserve Requirement, and to pay any delinquent installments of principal or interest due on the Bonds.

Covenant 4. <u>Against Encumbrances</u>. The Community Facilities District will not encumber, pledge or place any charge or lien upon any of the Net Taxes or other amounts pledged to the Bonds superior to, or on a parity with, the pledge and lien created under the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted by the Fiscal Agent Agreement.

Covenant 5. <u>Modification of Maximum Authorized Special Tax</u>. The Community Facilities District covenants that no modification of the maximum authorized Special Taxes in the Community Facilities District shall be approved by the Community Facilities District prior to the issuance of all Parity Bonds and payment in full of the Incremental Payment Obligation and thereafter only if it is confirmed in writing, by an Independent Financial Consultant, that, immediately subsequent to such modifications the amount of the maximum Special Taxes on Developed Property (as defined in the Rate and Method), pursuant to the Act and the applicable resolutions and ordinances of the Community Facilities District is at least 1.10 times Maximum Annual Debt Service plus Administrative Expenses on all Outstanding Bonds.

The Community Facilities District further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIIIC of the California Constitution, which purports to reduce or otherwise alter the maximum authorized Special Taxes, it will, to the extent of available Community Facilities District funds therefore, commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

Covenant 6. <u>Protection of Security and Rights of Owners</u>. The Community Facilities District will preserve and protect the security of the Community Facilities District and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the Community Facilities District, the Bonds shall be incontestable by the Community Facilities District.

Covenant 7. <u>Compliance with Law, Completion of Project</u>. The Community Facilities District will comply with all applicable provisions of the Act and law in completing the acquisition and construction of the Project; provided, that the Community Facilities District shall have no obligation to advance any funds to complete the Project in excess of the amounts available therefore in the Construction Fund.

Covenant 8. <u>Books and Accounts</u>. The Community Facilities District will keep, or cause to be kept, proper books of records and accounts, separate from all other records and accounts of the Bonds, in which complete and correct entries shall be made of all transactions relating to the Bonds, the levy of the

Special Tax and the deposits to the Special Tax Fund including the Prepayment Account. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent (who shall have no duty to inspect) or of the Owners of not less than 10% of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

Covenant 9. <u>Tax Covenant</u>. The Community Facilities District covenants and represents that until the last Bonds shall have been fully paid or redeemed, the Community Facilities District will comply with all requirements of the Tax Certificate, the Code and all applicable Regulations, such that the interest on the Bonds will remain excluded from gross income for federal income tax purposes.

Covenant 10. <u>Additional Tax Covenants</u>. The Community Facilities District covenants, without limiting the generality of Covenant 9, that:

- (a) the Community Facilities District will make no use of the proceeds of the Bonds or the School Facilities, City Facilities or other public facilities refinanced with the proceeds of the Bonds, which at any time will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and applicable Regulations;
- the Bonds shall not be directly or indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) and no portion of the monies contained in any of the funds or accounts created in the Fiscal Agent Agreement shall be: (i) used in making loans guaranteed by the United States (or any agency or instrumentality thereof); (ii) invested directly or indirectly in deposits or accounts insured by the Federal Deposit Insurance Corporation, National Credit Union Administration or any other similar federally chartered corporation; (iii) otherwise invested directly or indirectly in obligations guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof); except (a) investments of amounts in the Construction Fund during any temporary period under Section 148 of the Code; (b) investment of amounts held in the Reserve Fund, or other reserve funds satisfying Section 148(d) of the Code; (c) investment of amounts held in the Special Tax Fund, Bond Fund and other bona fide debt service funds; (d) for investments in obligations issued by the United States Treasury; (e) for investments in obligations guaranteed by the Federal National Mortgage Association, Government National Mortgage Association or Federal Home Loan Mortgage Corporation; or, (f) investments permitted under Regulations issued pursuant to Section 149(b)(3)(B) of the Code;
- (c) the Community Facilities District will ensure that no portion of the monies contained in any of the funds or accounts created in the Fiscal Agent Agreement, or any of the School Facilities, City Facilities or other public facilities funded from proceeds of the Bonds, shall be used so as to cause any of the Bonds to meet the "private activity bond" tests of Section 141 of the Code and any Regulations issued thereunder:
- (d) the Community Facilities District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and the applicable Regulations and the Fiscal Agent Agreement and any further documents executed in connection with the Bonds. This covenant shall survive payment in full or defeasance of the Bonds. The Community Facilities District specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined above the amounts required to be so paid by the Fiscal Agent Agreement and further documents executed in connection with the Bonds, the Code and the Regulations;
- (e) the Community Facilities District: (i) shall neither invest Gross Proceeds nor cause Gross Proceeds to be invested in Nonpurpose Investments if the Yield on such Nonpurpose Investments would be less than the Yield that would have resulted in an arm's length transaction; (ii) will not sell or otherwise

dispose of or cause to be sold or otherwise disposed of Nonpurpose Investments if such sale or disposition would result in a smaller profit or larger loss than would have resulted from a sale at fair market value arrived at in an arm's length transaction; and (iii) shall keep a detailed accounting of all transactions contemplated under the Fiscal Agent Agreement or in any way relating to the receipt or disbursement of any of the Gross Proceeds of the Bonds for a period of six years after the later of the date of payment of all Excess Investment Earnings to the United States or the date the Community Facilities District disburses the last of the Gross Proceeds of the Bonds; and

(f) notwithstanding any provision of the Fiscal Agent Agreement, if the Community Facilities District shall provide to the Fiscal Agent an opinion of Bond Counsel that any specified action required under the Fiscal Agent Agreement is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds, the Fiscal Agent may conclusively rely on such opinion in complying with the requirements of the Fiscal Agent Agreement, and the covenants under the Fiscal Agent Agreement shall be deemed to be modified to that extent notwithstanding the provisions of the Fiscal Agent Agreement.

Covenant 11. <u>Further Assurances</u>. The Community Facilities 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 obligations and covenants under the Fiscal Agent Agreement and any Supplement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Fiscal Agent Agreement and in any Supplement.

Covenant 12. Additional Opinion(s). The Community Facilities District will not make any change in requirements or procedures or take any action, as to which change or action the Fiscal Agent Agreement or related documents require an opinion of Bond Counsel, unless it obtains an opinion of Bond Counsel to the effect that: (a) interest on the Bonds was excluded from gross income for federal income tax purposes from their date of issuance until the date of such change, assuming compliance with the covenants in the Fiscal Agent Agreement as they were in effect prior to the change (except that such opinion need not be given as to any interest for which a similar opinion has previously been given and remains in effect subsequent to such change), and (b) assuming continued compliance by the Community Facilities District with the covenants as changed, interest on the Bonds is excluded from gross income for purposes of federal income taxation.

Covenant 13. <u>Tender of Bonds</u>. The Community Facilities District will not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53356.1 and 53356.5 of the California Government Code in any manner which would be inconsistent with the interests of the Owners and, in particular, will not permit the tender of Bonds in full or partial payment of Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the Community Facilities District having insufficient Net Taxes to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

Covenant 14. Conditions for Issuance of Parity Bonds. The Community Facilities District may, at any time after the issuance and delivery of the 2016 Bonds, issue Parity Bonds payable from the Net Taxes and amounts deposited in the Reserve Fund, or accounts thereof, and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds under the Fiscal Agent Agreement as provided in the Fiscal Agent Agreement. Parity Bonds may be issued subject to the following additional specific conditions, which are made conditions precedent to the issuance of any Parity Bonds; provided, Parity Bonds may be issued at any time to refund the Outstanding Bonds, in whole or in part, without limitation on the \$30,000,000 principal amount limitation set forth in clause (a) below, and without satisfying the requirements under clauses (d), (e), (f) and (g) below. Capitalized terms used in this Covenant

14 and not otherwise defined in the Fiscal Agent Agreement shall have the meanings given in the Rate and Method.

- (a) <u>Maximum Total Parity Bond Issuance</u>. The aggregate original principal amount of the 2016 Bonds and all Parity Bonds issued may not exceed \$30,000,000; provided, however, that, notwithstanding the foregoing, Parity Bonds may be issued at any time to refund the Outstanding Bonds without limitation on the foregoing \$30,000,000 principal amount limitation.
- (b) <u>Compliance with Covenants</u>. The Community Facilities District shall be in compliance with all covenants set forth in the Fiscal Agent Agreement and any Supplement then in effect and a certificate of the Community Facilities District to that effect shall have been filed with the Fiscal Agent; provided, however, that Parity Bonds may be issued notwithstanding that the Community Facilities District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds, the Community Facilities District will be in compliance with all such covenants.
- (c) <u>Supplemental Fiscal Agent Agreement</u>. The issuance of Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of Parity Bonds shall have been provided for by a Supplement duly adopted by the Community Facilities District which shall specify the following:
 - (1) the purpose for which the Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited including payment of all costs incidental to or connected therewith:
 - (2) the authorized principal amount of the Parity Bonds;
 - (3) the date and the maturity date or dates of the Parity Bonds; provided that
 - (A) each maturity date shall fall on September 1 and shall pay interest on the Interest Payment Dates,
 - (B) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and
 - (C) fixed serial maturities or Mandatory Sinking Payments, or any combination thereof, shall be established if necessary to provide for the retirement of all 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 Payment, if any, for the Parity Bonds;
 - (7) the amount, if any, to be deposited from the proceeds of the Parity Bonds in the Reserve Fund;
 - (8) the form of the Parity Bonds;

- (9) the terms of redemption for the Parity Bonds, which shall be consistent with the terms (other than dates for redemption, premium rates and amounts) specified in the Fiscal Agent Agreement; and
- (10) such other provisions as are necessary or appropriate and not inconsistent with the Fiscal Agent Agreement.
- (d) <u>Homeowner Title</u>. Individual third party homeowners hold record title to no less than 135 Dwelling Units within the Community Facilities District. A "Dwelling Unit" is defined for this purpose as "each residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units."
- (e) Minimum Debt Service Coverage. The Community Facilities District must receive one or more certificates from one or more Independent Financial Consultants which, when taken together, certify that (i) the amount of the Assigned Special Taxes that may be levied in each remaining Bond Year on all parcels for which building permits are issued as of the 'date of valuation' referred to in subsection (f) below that are not known by the Community Facilities District to be delinquent in the payment of any Special Taxes, assessments or ad valorem property taxes then due and owing (such parcels to be referred to in the Covenant 14 of the Fiscal Agent Agreement as the "Appraised Developed Property"), plus (ii) the projected Assigned Special Taxes for all parcels to be developed as Custom Lot Property and not otherwise included under prior subsection (i) is at least the sum of (A) 1.10 times the Annual Debt Service for each corresponding Bond Year on all Outstanding Bonds and the Parity Bonds proposed to be issued (less any amounts for capitalized interest that may be available in a Bond Year), and (B) the Administrative Expense Requirement. For purposes of making the certification, the Independent Financial Consultants may rely on any reports or certificates as may be acceptable to the Community Facilities District and the underwriter of the proposed Parity Bonds.
- (f) <u>Minimum Value-to-Lien Ratio for Appraised Developed Property</u>. The "Appraised Developed Property Value" (as defined below) shall be at least six times the sum of:
 - (1) "Direct Debt for Appraised Developed Property," which is defined as that portion of the aggregate principal amount of the Outstanding Bonds and the proposed Parity Bonds which is allocable to Appraised Developed Property. For this purpose, there will be allocated to the Appraised Developed Property the largest principal amount of Outstanding Bonds and Parity Bonds that results in the maximum Special Taxes that may be levied on Appraised Developed Property (not including any parcels of Appraised Developed Property with delinquent Special Taxes and assuming taxation as "Developed Property" under the Rate and Method) in each Fiscal Year being at least equal to the sum of 110% of Annual Debt Service on such Outstanding Bonds and Parity Bonds in the Bond Year ending on the September 1 following the end of such Fiscal Year of taxation plus the share of Administrative Expenses allocable to the Appraised Developed Property for such Fiscal Year of taxation. Administrative Expenses in each Fiscal Year shall be deemed to be equal to the Administrative Expense Requirement and the portion of the total Administrative Expenses allocable to Appraised Developed Property shall be the same portion that Special Taxes on Appraised Developed Property represent of the total Special Taxes levied in the Community Facilities District in the then current Fiscal Year, plus
 - (2) the principal amount of any fixed assessment liens on Appraised Developed Property in the Community Facilities District, plus
 - (3) the proportionate share of the outstanding principal amount of all other special tax bonds payable at least partially from special taxes to be levied on Appraised Developed Property in the Community Facilities District ("Overlapping Bonds"), determined by multiplying the

outstanding principal amount of those Overlapping Bonds by the following fraction: the amount of special taxes securing the Overlapping Bonds levied on Appraised Developed Property in the Community Facilities District, divided by the total amount of special taxes securing those Overlapping Bonds (in each case to be determined based upon the actual special taxes that are levied in the current Fiscal Year).

The term "Appraised Developed Property Value" for purposes of this subparagraph (f) means the value (including both land and improvements) of all parcels of Appraised Developed Property that are not known by the Community Facilities District to be delinquent in the payment of any Special Taxes, assessments or ad valorem property taxes then due and owing. Appraised Developed Property Value will be determined by reference to either or some combination of (i) an appraisal prepared by an MAI appraiser selected by the Community Facilities District, with a date of value no earlier than 90 days before the date the proposed Parity Bonds would be issued ("date of valuation"), or (ii) the assessed values shown on the last equalized County assessor's property tax rolls as of the date 90 days before the date the proposed Parity Bonds would be issued ("date of valuation").

Neither the School District nor the Community Facilities District shall be liable to the Owners or any other person or entity with respect to any appraisal provided for purposes of meeting this requirement or by reason of any exercise of discretion made by any appraiser in connection with this requirement.

- (g) Minimum Value-to-Lien Ratio for Undeveloped Property. The "Undeveloped Property Value" (as defined below) shall be at least three times the sum of:
 - (1) "Direct Debt for Undeveloped Property," which is defined as that portion of the aggregate principal amount of the Outstanding Bonds and the proposed Parity Bonds which is not Direct Debt for Appraised Developed Property, but excluding from such calculation any Parity Bonds or proceeds thereof that are escrowed under the Supplement providing for issuance of the Parity Bonds, plus
 - (2) the principal amount of any fixed assessment liens on Undeveloped Property, plus
 - (3) the proportionate share of the outstanding principal amount of all other special tax bonds payable at least partially from special taxes to be levied on Undeveloped Property in the Community Facilities District ("Overlapping Bonds"), determined by multiplying the outstanding principal amount of such Overlapping Bonds by the following fraction: the amount of special taxes securing those Overlapping Bonds levied on Undeveloped Property in the Community Facilities District, divided by the total amount of special taxes securing such Overlapping Bonds (in each case to be determined based upon the actual special taxes levied in the current Fiscal Year).

The term "Undeveloped Property Value" for purposes of subsection (g) of the Fiscal Agent Agreement means the value (including both land and improvements) of all parcels of Undeveloped Property that are not known by the Community Facilities District to be delinquent in the payment of any Special Taxes, assessments or ad valorem property taxes then due and owing. Undeveloped Property Value shall be determined by reference to either or some combination of (i) an appraisal prepared by an MAI appraiser selected by the Community Facilities District, with a date of value no earlier than 90 days before the date the proposed Parity Bonds would be issued, or (ii) the assessed values shown on the last equalized County assessor's property tax rolls.

Neither the School District nor the Community Facilities District shall be liable to the Owners or any other person or entity with respect to any appraisal provided for purposes of meeting this requirement or by reason of any exercise of discretion made by any appraiser in connection with this requirement.

- (h) <u>Deposit to Reserve Fund</u>. The Supplement may provide for the establishment of separate funds and accounts, and shall provide for a deposit in the Reserve Fund so that the balance in the Reserve Fund shall be equal to the Reserve Requirement on the Delivery Date for the Outstanding Bonds and the Parity Bonds.
- (i) <u>Certification</u>. The Community Facilities District shall file with the Fiscal Agent a certificate of a District Representative certifying that the conditions precedent to the issuance of the Parity Bonds set forth in this Covenant 14 have been satisfied. The District Representative executing the certificate may conclusively rely upon such certificates of the Fiscal Agent, the Independent Financial Consultant, appraisers, owners of property within the Community Facilities District and others selected with due care, without the need for independent inquiry or certification.

Covenant 15. Annual Reports.

- (a) Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, and until the October 30 following the final maturity of the Bonds, the Community Facilities District shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the Community Facilities District accompanied by a fee determined by the Community Facilities District to pay the costs of the Community Facilities District in connection therewith. The Community Facilities District shall in no event be liable to any Owner or any other person or entity in connection with any error in any such information.
- (b) If at any time the Fiscal Agent fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal or interest on the Bonds, the Fiscal Agent shall notify the Community Facilities District in writing of such failure or withdrawal, and the Community Facilities District shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within 10 days of the failure to make such payment or the date of such withdrawal.
- (c) The reporting requirements of this Covenant 15 shall be amended from time to time, without action by the Community Facilities District or the Fiscal Agent to reflect any amendments to Section 53359.5(b) or Section 53359.5(c) of the Act. The Community Facilities District shall provide the Fiscal Agent with a copy of any such amendment. Notwithstanding the foregoing, any such amendment shall not, in itself, affect the Community Facilities District's obligations under any continuing disclosure documentation relating to the Bonds.
- (d) None of the Community Facilities District, its officers, agents, employees or Authorized Representatives, or the Fiscal Agent, shall be liable to any person or party for any inadvertent error in reporting the information contained in this Covenant 15.

Continuing Disclosure Covenant. The Community Facilities District covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate. Notwithstanding any other provision of the Fiscal Agent Agreement, failure of the Community Facilities District to comply with its obligations under the Continuing Disclosure Certificate shall not be considered an event of default under the Fiscal Agent Agreement, and the sole remedy, in the event of any failure of the Community Facilities District to comply with the Continuing Disclosure Certificate, shall be an action to compel performance thereof. The Fiscal Agent, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds and upon being provided with indemnity reasonably satisfactory to the Fiscal Agent, shall, or any Bondowner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance

by court order, to cause the Community Facilities District to comply with its obligations under the Continuing Disclosure Covenant. For purposes of the Continuing Disclosure Covenant, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the Owner of any Bonds for federal income tax purposes. (See "CONTINUING DISCLOSURE" and APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE").

Amendment to Fiscal Agent Agreement

The Community Facilities District may from time to time, and at any time, without notice to or consent of any of the Owners, adopt Supplements to the Fiscal Agent Agreement for any of the following purposes:

- (a) to cure any ambiguity, to correct or supplement any provision of the Fiscal Agent Agreement which may be inconsistent with any other provision of the Fiscal Agent Agreement, or to make any other provision with respect to matters or questions arising under the Fiscal Agent Agreement, or in any Supplement, provided that such action shall not materially adversely affect the interests of the Bondowners;
- (b) to add to the covenants and agreements of and the limitations and the restrictions upon the Community Facilities District contained in the Fiscal Agent Agreement which are not contrary to or inconsistent with the Fiscal Agent Agreement as theretofore in effect;
- (c) to modify, alter, amend or supplement the Fiscal Agent Agreement in any other respect which is not materially adverse to the Bondowners including, but not limited to, providing for the rating or insuring of any of the Bonds; and
- (d) to provide for the issuance of Parity Bonds in accordance with the terms of the Fiscal Agent Agreement.

Exclusive of amendments supplemental to the of the Fiscal Agent Agreement described above, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the Community Facilities District of such amendments or orders supplemental to the Fiscal Agent Agreement as shall be deemed necessary or desirable by the Community Facilities 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 Fiscal Agent Agreement; provided, however, that nothing in the Fiscal Agent Agreement shall permit, or be construed as permitting: (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bonds, (b) a reduction in the principal amount of, or redemption premium on, any Bonds or the rate of interest thereon, (c) a preference or priority of any Bonds over any other Bonds, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplement, without, in the case of (a) or (b), the consent of the affected Owner, or, in the case of (c) or (d), the consent of the Owners of all Bonds then Outstanding.

Fiscal Agent

The Fiscal Agent is appointed and takes authorized actions under the terms of the Fiscal Agent Agreement. The initial Fiscal Agent may be removed or replaced by the Community Facilities District upon 30 days' prior written notice (except during the continuance of an event of default, as further discussed below) or may, upon 60 days' prior written notice, resign in favor of a successor Fiscal Agent. The Fiscal

Agent Agreement provides for certain minimum qualifications of the Fiscal Agent and provides for notice and procedures in the event a successor Fiscal Agent is required or appointed.

- (a) The duties of the Fiscal Agent are specified within the Fiscal Agent Agreement and include mailing interest payments to the Owners, selecting Bonds for redemption pursuant to the terms of the Fiscal Agent Agreement, giving notice of redemption and meetings of the Owners, maintaining the Bond Register and maintaining and administering the funds and accounts established pursuant to the Fiscal Agent Agreement. The Fiscal Agent also performs all other acts authorized or directed of the Fiscal Agent pursuant to the terms of the Fiscal Agent Agreement.
- (b) The Fiscal Agent Agreement provides that the recitals of fact and all promises, covenants and agreements contained therein and in the Bonds are to be taken as statements, promises, covenants and agreements of the Community Facilities District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Fiscal Agent Agreement or the Bonds. The Fiscal Agent Agreement provides for certain protections from liability of the Fiscal Agent except for its own negligence or willful misconduct, as further specified in the Fiscal Agent Agreement.

Events of Default, Remedies

Events of Default. Any one or more of the following events shall constitute an "event of default:"

- (a) default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, at maturity as therein expressed;
- (b) default in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or
- (c) default by the Community Facilities District in the observance of any of the other agreements, conditions or covenants on its part in the Fiscal Agent Agreement or in the Bonds, and the continuation of such default for a period of 30 days after the Community Facilities District shall have been given notice in writing of such default by the Fiscal Agent, provided that if within 30 days the Community Facilities District has commenced curing of the default and diligently pursues elimination thereof, such period shall be extended to permit such default to be eliminated; provided, any noncompliance with the terms of the Continuing Disclosure Covenant under the Fiscal Agent Agreement (and set forth above) shall not be an event of default under the terms of the Fiscal Agent Agreement.

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

- (a) by mandamus or other suit or proceeding at law or in equity to enforce his or her rights against the Community Facilities District and any of the members, officers and employees of the Community Facilities District, and to compel the Community Facilities 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 Fiscal Agent Agreement;
- (b) by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) upon the happening of an event of default (as defined in the Fiscal Agent Agreement), by a suit in equity to require the Community Facilities District and its members, officers and employees to account as the trustee of an express trust.

Nothing in the Fiscal Agent Agreement, or in the Bonds, shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Fiscal Agent Agreement, out of the Net Taxes pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Fiscal Agent Agreement.

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

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

No remedy in the Fiscal Agent Agreement conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given pursuant to the Fiscal Agent Agreement 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.

Application of Net Taxes After Default. If an Event of Default shall occur and be continuing, all Net Taxes and any other funds thereafter received by the Fiscal Agent under any of the provisions of the Fiscal Agent Agreement shall be applied by the Fiscal Agent as follows and in the following order:

- (a) to the payment of any expenses necessary in the opinion of the Fiscal Agent to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Fiscal Agent (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Fiscal Agent Agreement;
- (b) to the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Fiscal Agent Agreement, as follows:

<u>First:</u> To the payment to the Owners entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Owners entitled thereto, without any discrimination or preference; and

<u>Second:</u> To the payment to the Owners entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption,

and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Owners entitled thereto, without any discrimination or preference.

Any remaining funds shall be transferred by the Fiscal Agent to the Special Tax Fund.

Limitation on Bondowners' Right to Sue. Except as expressly provided for in the Fiscal Agent Agreement, no Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Fiscal Agent Agreement, the Act or any other applicable law with respect to such Bonds, unless: (a) such Owner shall have given to the Fiscal Agent written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Fiscal Agent to exercise the powers granted in the Fiscal Agent Agreement or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Fiscal Agent indemnity against the costs, expenses and liabilities to be incurred in compliance with such request, and (d) the Fiscal Agent shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and such tender of indemnity shall have been made to, the Fiscal Agent.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Fiscal Agent Agreement or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Fiscal Agent Agreement or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Fiscal Agent Agreement, the Act or other applicable law with respect to the Bonds, except in the manner provided in the Fiscal Agent Agreement, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Fiscal Agent Agreement and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Fiscal Agent Agreement.

Defeasance

Any Outstanding Bond(s) shall be deemed to have been paid within the meaning expressed in the Fiscal Agent Agreement if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest due on such Bond, as and when the same become due and payable;
- (b) by depositing with the Fiscal Agent, or a designated bank or trust company as escrow holder, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund and available for such purpose, is fully sufficient to pay the principal of and interest on such Bond as and when the same shall become due and payable; or
- (c) by depositing with the Fiscal Agent, or a designated bank or trust company as escrow holder, in trust, direct, noncallable Federal Securities, in such amount as certified by a nationally recognized certified public accountant which will, together with the interest to accrue thereon and monies then on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund available for such purpose, together with the interest to accrue thereon, be fully sufficient to pay and discharge the principal of and interest and any premium on such Bond as and when the same shall become due and payable;

then, notwithstanding that any such Bond shall not have been surrendered for payment, all obligations of the Community Facilities District under the Fiscal Agent Agreement, and any Supplement, with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bonds not so surrendered and paid, all sums due thereon and except for the covenants of the Community Facilities District contained and identified in the Fiscal Agent Agreement

Miscellaneous

Unclaimed Monies. Anything in the Fiscal Agent Agreement to the contrary notwithstanding, to the extent permitted by law and subject to the applicable escheat laws of the State, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Bonds which remains unclaimed for two years after the date when such Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for two years after the date of deposit of such money if deposited with the Fiscal Agent after the date when such monies become due and payable, shall be repaid by the Fiscal Agent to the Community Facilities District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look thereafter only to the Community Facilities District for the payment of such Bonds. The Fiscal Agent shall give notice to the Community Facilities District of the amount of any unclaimed monies that are available for transfer to the Community Facilities District and the Community Facilities District shall request such transfer in writing. However, before being required to make any such payment to the Community Facilities District, the Fiscal Agent shall, at the expense of the Community Facilities District, cause to be mailed to the registered owners of such Bonds, at their addresses as they appear on the Bond Register, a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the Community Facilities District.



APPENDIX E

FORM OF COMMUNITY FACILITIES DISTRICT CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate"), dated as of September 1, 2016, is by and between Government Financial Strategies inc., as dissemination agent (the "Dissemination Agent"), and the Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) (the "Community Facilities District").

RECITALS:

WHEREAS, the Community Facilities District has issued its Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) Series 2016 Special Tax Bonds (the "Bonds") in the initial principal amount of \$12,575,000; and

WHEREAS, the Bonds are being issued pursuant to the Fiscal Agent Agreement, dated as of October 1, 2013 (the "Original Fiscal Agent Agreement"), by and between the Community Facilities District and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), as supplemented by the First Supplement to Fiscal Agent Agreement, dated as of September 1, 2016 (the "First Supplement to Fiscal Agent Agreement," and together with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"); and

WHEREAS, this Disclosure Certificate is being executed and delivered by the Community Facilities District and the Dissemination Agent for the benefit of the owners and beneficial owners of the Bonds and in order to assist the underwriter of the Bonds in complying with United States Securities and Exchange Commission Rule 15c2-12(b)(5).

AGREEMENT:

NOW, THEREFORE, for and in consideration of the premises and mutual covenants herein contained, and for other consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. <u>Definitions</u>. In addition to the definitions of capitalized terms set forth in Section 1.02 of the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section or in the Recitals above, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"Annual Report" means any Annual Report provided by the Community Facilities District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Disclosure Representative" means the Deputy Superintendent, Business & Support Services of the School District, or such person's designee, or such other officer or employee as the Community Facilities District shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

"Dissemination Agent" means Government Financial Strategies inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District and the School District a written acceptance of such designation.

"EMMA" or "Electronic Municipal Market Access" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" means any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Official Statement" means the Official Statement, dated August 17, 2016, relating to the Bonds.

"Participating Underwriter" means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 2. <u>Purpose of the Disclosure Certificate</u>. This Disclosure Certificate is being executed and delivered by the Community Facilities District and the Dissemination Agent for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

- (a) Delivery of Annual Report. The Community Facilities District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Community Facilities District's fiscal year (which currently ends on June 30), commencing with the report for the 2015-16 Fiscal Year, which is due not later than March 31, 2017, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Community Facilities District, if any, may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.
- (b) Change of Fiscal Year. If the Community Facilities District's fiscal year changes, the Community Facilities District shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.
- (c) Delivery of Annual Report to Dissemination Agent. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the Community Facilities District shall provide the Annual Report to the Dissemination Agent (if other than the Community Facilities District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Community Facilities District.
- (d) Report of Non-Compliance. If the Community Facilities District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the Community Facilities District shall send in a timely manner a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Community Facilities District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send in a timely manner a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) Annual Compliance Certification. The Dissemination Agent shall, if the Dissemination Agent is other than the Community Facilities District, file a report with the Community Facilities District certifying that the Annual Report has been filed with EMMA pursuant to this Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. <u>Content of Annual Reports.</u> The Annual Report shall contain or incorporate by reference the following:

- (a) Financial Statements. If audited financial statements of the Community Facilities District are prepared, the Community Facilities District shall provide such audited financial statements, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standard Board. If audited financial statements are to be prepared but are not available at the time required for filing, unaudited financial statements shall be submitted with the Annual Report and audited financial statement shall be submitted in a timely manner once available. For purposes of this section, the financial statements of the School District shall not be deemed to be the financial statements of the Community Facilities District, unless such audited financial statements contain specific information as to such Community Facilities District, its revenues, expenses and account balances. If audited financial statements of the Community Facilities District are not prepared, no unaudited financial statements need be submitted.
- (b) Other Annual Information. Each Annual Report shall also include the following information, to the extent not included in the audited final statements of the Community Facilities District:
 - (i) The most recent annual information required to be provided to the California Debt and Investment Advisory Commission pursuant to Covenant 15(a) of Section 5.02 of the Fiscal Agent Agreement, which shall include, in any event, the principal amount of the Bonds and any Parity Bonds outstanding and the balance in each fund under the Fiscal Agent Agreement as of the immediately preceding June 30.
 - (ii) Any amendments or changes to the Rate and Method since the last Annual Report.
 - (iii) The principal amount of any Parity Bonds issued since the last Annual Report.
 - (iv) An update to Table 3 entitled "Projected Fiscal Year 2016-17 Special Tax Levy" providing the Special Tax levy amounts for the most recent fiscal year.
 - (v) An update of Table 2 of the Official Statement entitled "Debt Service Coverage from Net Taxes" and Table 5B entitled "Estimated Appraised Value-to-Lien Ratios" in the Official Statement for the Bonds based on the assessed values of property within the Community Facilities District and the Special Tax levy, in each case for the most recent Fiscal Year for which such information is available.
 - (vi) An update to Table 4 entitled "Special Tax Delinquency History", with delinquency information as of a date within 45 days of the date of the Annual Report and including a general description regarding the status of the Community Facilities District's actions, if any, on covenants to pursue foreclosure proceedings upon delinquent properties.
 - (vii) Any change in the application of Orange County's Teeter Plan to the Special Taxes levied in the Community Facilities District since the last Annual Report.
- (c) Cross References. 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 School District or related public entities, which are available to the public on EMMA. The Community Facilities District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) Further Information. In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the Community Facilities District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Events.

- (a) Listed Events. The Community Facilities District shall, or shall cause the Dissemination Agent (if not the Community Facilities District) to, give notice of the occurrence of any of the following events with respect to the Bonds:
 - (1) Principal and interest payment delinquencies.
 - (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
 - (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
 - (4) Substitution of credit or liquidity providers, or their failure to perform.
 - (5) Defeasances.
 - (6) Rating changes.
 - (7) Tender offers.
 - (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
 - (9) 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.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

- (b) *Material Events*. The Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:
 - (1) Non-payment related defaults.
 - (2) Modifications to rights of security holders.
 - (3) Bond calls.
 - (4) The release, substitution, or sale of property securing repayment of the securities.
 - (5) 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.

- (6) Appointment of a successor or additional fiscal agent, or the change of name of a fiscal agent.
- (c) Time to Disclose. The Community Facilities District shall, or shall cause the Dissemination Agent (if not the Community Facilities District) to, file a notice of any such occurrence described in subsection (a) or subsection (b) above with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Fiscal Agent Agreement.
- Section 6. <u>Identifying Information for Filings with EMMA.</u> All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.
- Section 7. <u>Termination of Reporting Obligation</u>. The Community Facilities District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. <u>Dissemination Agent.</u>

(a) Appointment of Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc.

If the Dissemination Agent is not the Community Facilities District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Community Facilities District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the Community Facilities District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the School District or the Community Facilities District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the Community Facilities District.

- (b) Compensation of Dissemination Agent. The Dissemination Agent shall be paid compensation by the Community Facilities District for its services provided hereunder as agreed to between the Dissemination Agent and the Community Facilities District from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Community Facilities District, the School District, the owners of the Bonds 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 Community Facilities District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the Community Facilities District and the School District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.
- (c) Responsibilities of Dissemination Agent. In addition to the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the Community Facilities District and the School District to compile the information required for its Annual Report at least 30 days prior to the date such

information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the Community Facilities District under Section 3.

Section 9. <u>Amendment; Waiver.</u> Notwithstanding any other provision of this Disclosure Certificate, the Community Facilities District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

- (a) Change in Circumstances. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.
- (b) Compliance as of Issue Date. The Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.
- (c) Consent of Holders; Non-impairment Opinion. The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Community Facilities 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 Certificate, the Community Facilities District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. <u>Default.</u> In the event of a failure of the Community Facilities District to comply with any provision of this Disclosure Certificate, any Bond owner or Beneficial Owner, or the Fiscal Agent or the Participating Underwriter, may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District to comply with its obligations under this Disclosure Certificate in the event of any failure of the Community Facilities District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. <u>Beneficiaries.</u> This Disclosure Certificate shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, 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 13. <u>Counterparts.</u> This Disclosure Certificate 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 Certificate as of the date first above written.

COMMUNITY FACILITIES DISTRICT NO. 2005-1 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (WHISPERING HILLS)

By:	
Its:	
	/ERNMENT FINANCIAL STRATEGIES INC. issemination Agent
Ву:	
Itc	

EXHIBIT A

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

Name of Obligor:	School District (Whispering Hills)
Name of Bond Issue:	Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) Series 2016 Special Tax Bonds
Date of Issuance:	, 2016
respect to the above-named Bedated as of September 1, 201 dissemination agent, and Sectional between the Obligor and Ufirst Supplement to Fiscal Agents	Y GIVEN that the Obligor has not provided an Annual Report with onds as required by Section 3 of the Continuing Disclosure Certificate 16, between the Obligor and Government Financial Strategies inc., as on 5.03 of the Fiscal Agent Agreement, dated as of October 1, 2013, by J.S. Bank National Association, as Fiscal Agent, as supplemented by the gent Agreement, dated as of September 1, 2016, by and between the att. The Obligor anticipates that the Annual Report will be filed by
	[DISSEMINATION AGENT]
	By:
	Its:

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the 2016 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Community Facilities District, proposes to render its final approving opinion with respect to the 2016 Bonds in substantially the following form:

[Date of Delivery]

Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) San Juan Capistrano, California

> Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) <u>Special Tax Bonds, Series 2016</u> (Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to Community Facilities District No. 2005-1 of the Capistrano Unified School District (Whispering Hills) (the "Community Facilities District") in connection with the issuance of \$12,575,000 aggregate principal amount of Community Facilities District No. 2005-1 Capistrano Unified School District (Whispering Hills) Special Tax Bonds, Series 2016 (the "Bonds"), issued pursuant to the Fiscal Agent Agreement, dated as of October 1, 2013 (the "Original Fiscal Agent Agreement"), by and between the Community Facilities District and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), as supplemented by the First Supplement to Fiscal Agent Agreement, dated as of September 1, 2016 (the "First Supplement to Fiscal Agent Agreement," and together with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"). Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Fiscal Agent Agreement.

In such connection, we have reviewed the Fiscal Agent Agreement, the Tax Certificate, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Community Facilities District and the Fiscal Agent, certificates of the Community Facilities District, the Fiscal Agent and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Community Facilities District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and of the legal conclusions contained in the opinions, referred to in the second

paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Fiscal Agent Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Fiscal Agent Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or 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 governmental entities such as the Community Facilities District in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, reports or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Taxes levied upon any individual parcel. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

- 1. The Bonds constitute valid and binding special obligations of the Community Facilities District, payable, as provided in the Fiscal Agent Agreement, solely from Net Taxes and the other assets pledged therefor under the Fiscal Agent Agreement.
- 2. The Fiscal Agent Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Community Facilities District.
- 3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX G

BOOK-ENTRY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2016 Bonds, payment of principal of and interest on the 2016 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2016 Bonds, confirmation and transfer of beneficial ownership interests in the 2016 Bonds and other bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2016 Bonds is based solely on information furnished by DTC to the Community Facilities District which the Community Facilities District believes to be reliable, but the Community Facilities District, the Community Facilities District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2016 Bonds. The 2016 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 2016 Bond will be issued for each maturity of the 2016 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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by such reference or otherwise.

Purchases of 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016 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 2016 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 the 2016 Bonds, except in the event that use of the book-entry system for the 2016 Bonds is discontinued.

To facilitate subsequent transfers, all 2016 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 the 2016 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 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 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 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2016 Bonds documents. For example, Beneficial Owners of the 2016 Bonds may wish to ascertain that the nominee holding the 2016 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 Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2016 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 such other DTC nominee) will consent or vote with respect to the 2016 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 Community Facilities 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 the 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2016 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 Community Facilities District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the Community Facilities District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Community Facilities District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2016 Bonds at any time by giving reasonable notice to the Community Facilities District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2016 Bond certificates are required to be printed and delivered.

The Community Facilities District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2016 Bond certificates will be printed and delivered to DTC.

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

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the 2016 Bonds, or (b) the Community Facilities District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the Community Facilities District will discontinue the Book-Entry System with DTC for the 2016 Bonds. If the Community Facilities District determines to replace DTC with another qualified securities depository, the Community Facilities District will prepare or direct the preparation of a new single separate, fully-registered 2016 Bond for each maturity of the 2016 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Fiscal Agent Agreement. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2016 Bonds, then the 2016 Bonds shall no longer be restricted to being registered in the 2016 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2016 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2016 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2016 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Fiscal Agent Agreement, and (iii) the 2016 Bonds will be transferable and exchangeable as provided in the Fiscal Agent Agreement.

The Community Facilities District and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2016 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2016 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Fiscal Agent Agreement; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2016 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2016 Bonds or the Fiscal Agent Agreement. The Community Facilities District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2016 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Community Facilities District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2016 Bonds or any error or delay relating thereto.



APPENDIX H

COMMUNITY FACILITIES DISTRICT BOUNDARY MAP



90

PROPOSED BOUNDARY OF

COMMUNITY FACILITIES DISTRICT NO. 2005-1 (Whispering Hills)

OF THE

CAPISTRANO UNIFIED SCHOOL DISTRICT CAPISTHAND UNIFIED SCHOOL DISTRICT

COUNTY OF ORANGE, STATE OF CALIFORNIA

ACCEPTED AND FILED AT THE

OADISTRAND UNIFIED SCHOOL DISTRICT

(3) FILED THIS 3

DAY OF MALY

2005, AT THE HOUR OF A SSESSMENT

AND COMMUNITY FACILITIES DISTRICT AT PAGE

AND AS INSTRUMENT NOTES AND
THE OFFICE OF THE COUNTY RECORDER IN THE

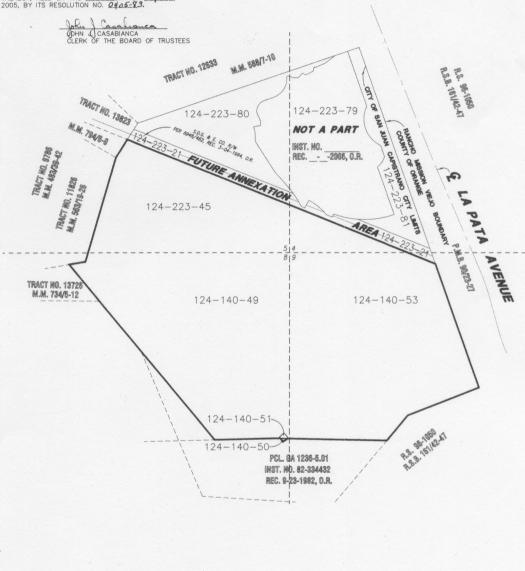
COUNTY OF ORANGE, STATE OF CALIFORNIA.

PEE NO FEE

TOM DALY, COUNTY CLERK-BECORDER
BY LLUAY L DUNCY
EXEMPT RECORDING REQUESTED PER
CALIFORNIA GOVERNIENT CODE SECTION 6103.

John J Casalianca Ohn J Casabianca CLERK OF THE BOARD OF TRUSTEES

(2) I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2005–1, COUNTY OF ORANGE, STATE OF CALIFORNIA, WAS APPROVED BY THE BOARD OF TRUSTEES OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT AT A REGULAR MEETING THEREOF, HELD ON THE \$5.00 AP OF \$2005, BY ITS RESOLUTION NO. 2405-73.



PCA

LEGEND

BOUNDARIES OF COMMUNITY FACILITIES DISTRICT

SECTION LINE

PREPARED BY

PARDUE, CORNWELL AND ASSOCIATES