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

COUNTY OF SAN DIEGO

The Bonds are special, limited obligations of the Authority. The Series B Bonds are payable solely from and secured by a first lien upon and pledge of Revenues (as such term is defined herein), consisting of debt service payments on the Special Tax Refunding Bonds received by the Authority, as the registered owner of the Special Tax Refunding Bonds, and amounts in certain funds and accounts pledged to the Series B Bonds under the Indenture. The Series C Bonds are payable solely from and secured by a lien upon and pledge of the Subordinated Revenues, consisting of debt service payments on the Special Tax Refunding Bonds received by the Authority, as the registered owner of the Special Tax Refunding Bonds, subordinate to the lien upon and pledge of Revenues securing the Series B Bonds, and amounts in certain funds and accounts pledged to Series C Bonds under the Indenture. Subordinated Revenues will be available to pay the Series C Bonds only after all payments and deposits in respect of the Series B Bonds have been made as provided in the Indenture. Debt service payments on the Special Tax Refunding Bonds are calculated to be sufficient to permit the Authority to pay debt service on the Bonds when due. The City of San Marcos (the “City”) has determined that it will not obligate itself to advance funds from its treasury to cover any delinquency on the Special Tax Refunding Bonds. See the caption “SECURITY FOR THE BONDS.”


See the caption “SPECIAL RISK FACTORS” for a discussion of certain risk factors that should be considered in addition to the other matters set forth herein when evaluating the investment quality of the Bonds. This cover page contains certain information for quick reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Maturity Schedule
(See inside cover)

The Bonds are offered, when and if issued and accepted by the Underwriter, subject to approval as to their validity by Best Best & Krieger LLP, San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority and the City by the City Attorney and by Stradling Yoocarlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel, for the Underwriter by McFarlin & Anderson LLP, Laguna Hills, California, and for the Trustee by its counsel. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about June 20, 2012.

Dated: June 6, 2012

Piper Jaffray
## MATURITY SCHEDULE

**BASE CUSIP®†: 79876A**

**$13,820,000**

**SAN MARCOS PUBLIC FINANCING AUTHORITY**  
**SPECIAL TAX REVENUE REFUNDING BONDS**  
**SERIES 2012B (SUPERIOR LIEN BONDS)**

<table>
<thead>
<tr>
<th>Maturity Date (September 1)</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>CUSIP®†</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$295,000</td>
<td>2.000%</td>
<td>1.100%</td>
<td>AT9</td>
</tr>
<tr>
<td>2014</td>
<td>415,000</td>
<td>3.000</td>
<td>1.570</td>
<td>AU6</td>
</tr>
<tr>
<td>2015</td>
<td>430,000</td>
<td>3.000</td>
<td>1.860</td>
<td>AV4</td>
</tr>
<tr>
<td>2016</td>
<td>445,000</td>
<td>3.000</td>
<td>2.050</td>
<td>AW2</td>
</tr>
<tr>
<td>2017</td>
<td>455,000</td>
<td>3.000</td>
<td>2.340</td>
<td>AX0</td>
</tr>
<tr>
<td>2018</td>
<td>470,000</td>
<td>3.000</td>
<td>2.650</td>
<td>AY8</td>
</tr>
<tr>
<td>2019</td>
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<td>3.480</td>
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<tr>
<td>2022</td>
<td>525,000</td>
<td>3.500</td>
<td>3.680</td>
<td>BC5</td>
</tr>
<tr>
<td>2023</td>
<td>545,000</td>
<td>3.625</td>
<td>3.880</td>
<td>BD3</td>
</tr>
<tr>
<td>2024</td>
<td>570,000</td>
<td>3.750</td>
<td>4.080</td>
<td>BE1</td>
</tr>
<tr>
<td>2025</td>
<td>590,000</td>
<td>4.000</td>
<td>4.250</td>
<td>BF8</td>
</tr>
<tr>
<td>2026</td>
<td>615,000</td>
<td>4.000</td>
<td>4.370</td>
<td>BG6</td>
</tr>
<tr>
<td>2027</td>
<td>635,000</td>
<td>4.125</td>
<td>4.450</td>
<td>BH4</td>
</tr>
</tbody>
</table>

$3,670,000 5.000% Term Series B Bonds Due September 1, 2032 – Price 101.590%,† CUSIP®† BJ0  
$2,670,000 5.000% Term Series B Bonds Due September 1, 2035 – Price 100.230%,† CUSIP®† BK7

**$4,240,000**

**SAN MARCOS PUBLIC FINANCING AUTHORITY**  
**SPECIAL TAX REVENUE REFUNDING BONDS**  
**SERIES 2012C (SUBORDINATE LIEN BONDS)**

<table>
<thead>
<tr>
<th>Maturity Date (September 1)</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>CUSIP®†</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 90,000</td>
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<td>2014</td>
<td>125,000</td>
<td>2.000</td>
<td>2.220</td>
<td>BM3</td>
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<td>2015</td>
<td>130,000</td>
<td>2.250</td>
<td>2.460</td>
<td>BN1</td>
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<td>2016</td>
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<td>2017</td>
<td>135,000</td>
<td>2.750</td>
<td>2.940</td>
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<td>3.300</td>
<td>BR2</td>
</tr>
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<td>2019</td>
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<td>3.510</td>
<td>BS0</td>
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<td>150,000</td>
<td>3.500</td>
<td>3.810</td>
<td>BT8</td>
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<td>2021</td>
<td>155,000</td>
<td>3.750</td>
<td>4.080</td>
<td>BU5</td>
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<tr>
<td>2022</td>
<td>160,000</td>
<td>4.000</td>
<td>4.280</td>
<td>BV3</td>
</tr>
<tr>
<td>2023</td>
<td>165,000</td>
<td>4.125</td>
<td>4.430</td>
<td>BW1</td>
</tr>
<tr>
<td>2024</td>
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<td>2025</td>
<td>180,000</td>
<td>4.500</td>
<td>4.700</td>
<td>BY7</td>
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<tr>
<td>2026</td>
<td>190,000</td>
<td>4.500</td>
<td>4.790</td>
<td>BZ4</td>
</tr>
<tr>
<td>2027</td>
<td>195,000</td>
<td>4.625</td>
<td>4.870</td>
<td>CA8</td>
</tr>
</tbody>
</table>

$1,970,000 5.000% Term Series C Bonds Due September 1, 2035 – Price 97.315%, CUSIP®† CC4

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* Priced to optional redemption date of September 1, 2022 at par.
CITY OF SAN MARCOS

CITY COUNCIL/AUTHORITY MEMBERS

Jim Desmond, Mayor and Chair
Hal Martin, Vice Mayor and Vice Chair
Chris Orlando, Council Member and Authority Member
Rebecca Jones, Council Member and Authority Member
Kristal Jabara, Council Member and Authority Member

CITY/AUTHORITY OFFICIALS

Jack Griffin, City Manager/Executive Director
Susie Vasquez, City Clerk/Secretary
Helen Holmes Peak, City Attorney/Authority Counsel
Laura Rocha, Finance Director/Treasurer
Roque Chiriboga, Manager of Financial Analysis and Debt Administration

Bond Counsel
Best Best & Krieger LLP
San Diego, California

Disclosure Counsel
Stradling Yocca Carlson & Rauth,
A Professional Corporation
Newport Beach, California

Financial Advisor to the City
Fieldman, Rolapp & Associates
Irvine, California

Special Tax Consultant
David Taussig & Associates, Inc.
Newport Beach, California

Verification Agent
Grant Thornton LLP
Minneapolis, Minnesota

Trustee/Fiscal Agent
Union Bank, N.A.
Los Angeles, California
No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the City or the Community Facilities District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein which has been obtained from parties other than the Authority, the City and the Community Facilities District is believed to be reliable but is not guaranteed as to accuracy or completeness by the Authority, the City or the Community Facilities District. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or the Community Facilities District since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information herein relating to the Bonds, the Authority, the Community Facilities District, the Improvement Area and the City does not purport to be comprehensive or definitive. All references to the Bonds are qualified in their entirety by reference to the Indenture setting forth the terms and descriptions thereof. The summaries and references to any code, act, resolution, the Indenture or the Special Tax Refunding Bonds Fiscal Agent Agreement (as defined herein), and to other statutes and documents in this Official Statement do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each statute and document.

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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget,” “intend” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. No assurance is given that actual results will meet the forecasts set forth herein in any way, regardless of the optimism communicated in the information, and such statements speak only as of the date of this Official Statement. The City, the Community Facilities District and the Authority disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Official Statement to reflect any changes in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The City maintains a website; however, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.
INTRODUCTION

Summary

This Official Statement is provided to furnish certain information in connection with the issuance and sale by the San Marcos Public Financing Authority (the “Authority”), of $13,820,000 aggregate principal amount of San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012B (Superior Lien Bonds) (the “Series B Bonds”) and $4,240,000 aggregate principal amount of San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012C (Subordinate Lien Bonds) (the “Series C Bonds,” and together with the Series B Bonds, the “Bonds”).

The Bonds will be issued pursuant to the provisions of an Indenture of Trust, dated as of June 1, 2012 (the “Indenture”), by and between the Authority and Union Bank, N.A., as trustee (the “Trustee”). The Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 of Chapter 5, Division 7, Title 1 of the California Government Code (the “Bond Law”). Capitalized undefined terms used herein have the meanings ascribed thereto in the Indenture. See Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF BOND DOCUMENTS.”

The Bonds are being issued to finance the purchase of two series of special tax refunding bonds (the “Special Tax Refunding Bonds”), each issued by the City of San Marcos Community Facilities District No. 2002-01 (University Commons) (the “Community Facilities District”) for Improvement Area No. 1 of the Community Facilities District (the “Improvement Area”). The Special Tax Refunding Bonds are being issued to refund the outstanding City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Bonds, Series 2004 (the “Prior Special Tax Bonds”) previously issued by the Community Facilities District for the Improvement Area. See the caption “THE FINANCING PLAN.”

As the owner of the Special Tax Refunding Bonds, the Authority, under the Indenture, has pledged the payments of principal and interest that it receives on the Special Tax Refunding Bonds to pay debt service on the Bonds. Such payments, together with certain other amounts as specified in the Indenture, comprise the Revenues. The Revenues will be applied to pay principal of, premium, if any, and interest on the Series B Bonds. The Subordinated Revenues consist of the Revenues remaining after the payment of principal, premium, if any, interest and replenishment of the reserve fund for the Series B Bonds and will be applied to pay the principal of, premium, if any, and interest on the Series C Bonds.

The Special Tax Refunding Bonds are limited obligations of the Community Facilities District payable from Net Special Tax Revenues (as defined herein) pursuant to the Special Tax Refunding Bonds Fiscal Agent Agreement (as defined below). See the caption “SECURITY FOR THE BONDS” for a description of the Net Special Tax Revenues and other funds securing the Special Tax Refunding Bonds.

The Bonds

The proceeds of the Bonds will be used to acquire the Special Tax Refunding Bonds.

The Series B Bonds are payable from and secured by a first lien upon and pledge of all of the Revenues and all of the moneys in the Series B Interest Account and the Series B Principal Account of the
Revenue Fund, and the Series B Bonds Redemption Fund (as such terms are defined in the Indenture), including all amounts derived from the investment of such moneys. In addition, and subject to the limitations set forth in the Indenture, amounts in the Series B Reserve Fund will be applied to pay the principal of, including sinking fund payments, and interest on the Series B Bonds when due in the event that the moneys in the Series B Interest Account and/or the Series B Principal Account of the Revenue Fund are insufficient therefor. Moneys held in the Series C Reserve Fund described in the following paragraph will not be available for payment of the Series B Bonds.

“Revenues” is defined in the Indenture to mean: (a) amounts received from the Special Tax Refunding Bonds; (b) any proceeds of the Series B Bonds originally deposited with the Trustee in the funds and accounts established under the Indenture with respect to the Series B Bonds (other than the Rebate Fund and Surplus Fund); and (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Series B Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund). The principal and interest payments received by the Authority, as the owner of the Special Tax Refunding Bonds, are the primary source of funds to repay the Bonds. The Authority has covenanted in the Indenture not to issue or incur additional bonds, notes or other indebtedness that is payable out of the Revenues, in whole or in part. See the caption “SECURITY FOR THE BONDS.”

The Series C Bonds are payable from and secured by a lien upon and pledge of the Subordinated Revenues which is subordinate to the lien upon and pledge of the Revenues securing the Series B Bonds and all of the moneys in the Series C Interest Account and the Series C Principal Account of the Revenue Fund, and the Series C Bonds Redemption Fund (as such terms are defined in the Indenture), including all amounts derived from the investment of such moneys. In addition, and subject to the limitations set forth in the Indenture, amounts in the Series C Reserve Fund will be applied to pay the principal of, including sinking fund payments, and interest on the Series C Bonds when due in the event that the moneys in the Series C Interest Account and/or the Series C Principal Account of the Revenue Fund are insufficient therefor. Moneys held in the Series B Reserve Fund described in the preceding paragraph will not be available for payment of the Series C Bonds.

“Subordinated Revenues” is defined in the Indenture to mean: (a) any proceeds of the Series C Bonds originally deposited with the Trustee; (b) that amount remaining in the Revenue Fund on each Interest Payment Date falling on March 1 after the deposits required by the Indenture with respect to the Series B Bonds on such Interest Payment Date have been made which is necessary to make the deposit to the Series C Interest Account pursuant to the Indenture for such Interest Payment Date; (c) that amount remaining in the Revenue Fund on each Interest Payment Date falling on September 1 after the deposits required pursuant to the Indenture on such Interest Payment Date have been made which is necessary to make the deposits to the Series C Interest Account pursuant to the Indenture and to the Series C Principal Account pursuant to the Indenture for such Interest Payment Date; (d) all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the Series C Bonds (other than the Rebate Fund and the Surplus Fund); and (e) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Series C Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund). Accordingly, Subordinated Revenues will be available to pay the Series C Bonds only after all payments and deposits in respect of the Series B Bonds have been made as provided in the Indenture.


Special Tax Refunding Bonds

The Special Tax Refunding Bonds consist of: (i) the $13,820,000 aggregate principal amount of City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012A (the “Series 2012A Special Tax Refunding Bonds”); and (ii) the $4,240,000 aggregate principal amount of City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012B (the “Series 2012B Special Tax Refunding Bonds,” and together with the Series 2012A Special Tax Refunding Bonds, the “Special Tax Refunding Bonds”). The Special Tax Refunding Bonds will be issued concurrently with the Bonds.

The Special Tax Refunding Bonds are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, constituting Section 53311 et seq. of the California Government Code (the “CFD Act”), and the Fiscal Agent Agreement, dated as of June 1, 2012 (the “Special Tax Refunding Bonds Fiscal Agent Agreement”), by and between the Community Facilities District and Union Bank, N.A., as fiscal agent (the “Fiscal Agent”). Each series of Special Tax Refunding Bonds will be equally secured by special taxes (the “Special Taxes”) levied against certain taxable real property within the boundaries of the Improvement Area.

Risk Factors

See the caption “SPECIAL RISK FACTORS” for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds generally.

Brief descriptions of the Bonds, the security for the Bonds, the Special Tax Refunding Bonds, the Community Facilities District, the Improvement Area, the Authority, the City 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 Bonds, the Special Tax Refunding Bonds, the Indenture, the Special Tax Refunding Bonds Fiscal Agent Agreement and other documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Special Tax Refunding Bonds, the Indenture, the Special Tax Refunding Bonds Fiscal Agent Agreement and other documents.

THE FINANCING PLAN

The Bonds are being issued in order to provide funds to purchase the Special Tax Refunding Bonds, which are described in Table 1 below.
TABLE 1
SPECIAL TAX REFUNDING BONDS

<table>
<thead>
<tr>
<th>Special Tax Refunding Bonds</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012A</td>
<td>$13,820,000</td>
</tr>
<tr>
<td>City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012B</td>
<td>$ 4,240,000</td>
</tr>
</tbody>
</table>

Proceeds from the sale of the Special Tax Refunding Bonds, together with certain available funds on hand, including moneys held in certain funds relating to the Prior Special Tax Bonds, will be used to refund the Prior Special Tax Bonds on September 1, 2012. Table 2 below illustrates the date of issuance, original principal amount, outstanding principal amount, redemption price and redemption date with respect to the Prior Special Tax Bonds.

TABLE 2
PRIOR SPECIAL TAX BONDS

<table>
<thead>
<tr>
<th>Prior Special Tax Bonds</th>
<th>Date Issued</th>
<th>Original Principal Amount</th>
<th>Outstanding Principal Amount</th>
<th>Redemption Price</th>
<th>Redemption Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Bonds, Series 2004</td>
<td>July 21, 2004</td>
<td>$ 22,500,000</td>
<td>$ 19,125,000</td>
<td>100%</td>
<td>September 1, 2012</td>
</tr>
</tbody>
</table>

The Bonds are being sold in amounts that will provide proceeds sufficient to acquire the Special Tax Refunding Bonds. Under an Escrow Deposit and Trust Agreement, dated as of the date of issuance of the Bonds (the “Escrow Agreement”), by and between the Community Facilities District and Union Bank, N.A., as escrow bank (the “Escrow Bank”), the Community Facilities District will deliver a portion of the proceeds of the Special Tax Refunding Bonds to the Escrow Bank for deposit in the escrow fund established under the Escrow Agreement (the “Escrow Fund”). The Escrow Bank will invest a portion of the amounts deposited in the Escrow Fund in Federal Securities as set forth in the Escrow Agreement. From the maturing principal of the Federal Securities and related investment income and other moneys on deposit in the Escrow Fund, the Escrow Bank will pay when due all regularly scheduled payments of interest and principal with respect to the Prior Special Tax Bonds, and pay on September 1, 2012 the principal of the Prior Special Tax Bonds maturing after September 1, 2012, plus interest accrued to such date, without premium.

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Grant Thornton LLP, Minneapolis, Minnesota, as Verification Agent. Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the Prior Special Tax Bonds will be defeased pursuant to the provisions of the Fiscal Agent Agreement, dated as of June 1, 2004, by and between the Community Facilities District and Union Bank, N.A., formerly known as Union Bank of California, N.A., as fiscal agent, under which the Prior Special Tax Bonds were issued, as of the date of issuance of the Bonds. See the caption “CONCLUDING INFORMATION—Verification of Mathematical Computations.”

The amounts held and invested by the Escrow Bank in the Escrow Fund are pledged solely to the payment of the Prior Special Tax Bonds. Neither the funds deposited in the Escrow Fund nor the interest on the invested funds will be available for the payments of principal of and interest on the Bonds.
The proceeds from the sale of the Bonds, the Special Tax Refunding Bonds and certain moneys held in funds of the Prior Special Tax Bonds will be used as described in Tables 3 and 4, respectively, below.

**TABLE 3**
ESTIMATED SOURCES AND USES
BONDS

The estimated sources and uses of funds with respect to the Bonds and amounts transferred by the City and the Community Facilities District to the Trustee are set forth in the following table:

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Series B Bonds</th>
<th>Series C Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount of Bonds</td>
<td>$13,820,000.00</td>
<td>$4,240,000.00</td>
<td>$18,060,000.00</td>
</tr>
<tr>
<td>Plus/(Less) Net Original Issue Premium/(Discount)</td>
<td>22,651.90</td>
<td>(95,427.45)</td>
<td>(72,775.55)</td>
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<tr>
<td>Plus Other Available Moneys(1)</td>
<td>2,584,741.26</td>
<td>769,103.74</td>
<td>3,353,845.00</td>
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<tr>
<td>Total Sources</td>
<td>$16,427,393.16</td>
<td>$4,913,676.29</td>
<td>$21,341,069.45</td>
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</table>

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>Series B Bonds</th>
<th>Series C Bonds</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Special Tax Refunding Bonds Purchase Fund(2)</td>
<td>$15,161,866.17</td>
<td>$4,511,495.24</td>
<td>$19,673,361.41</td>
</tr>
<tr>
<td>Series B Reserve Fund</td>
<td>984,000.00</td>
<td>-</td>
<td>984,000.00</td>
</tr>
<tr>
<td>Series C Reserve Fund</td>
<td>-</td>
<td>307,500.00</td>
<td>307,500.00</td>
</tr>
<tr>
<td>Costs of Issuance(3)</td>
<td>281,526.99</td>
<td>94,681.05</td>
<td>376,208.04</td>
</tr>
<tr>
<td>Total Uses</td>
<td>$16,427,393.16</td>
<td>$4,913,676.29</td>
<td>$21,341,069.45</td>
</tr>
</tbody>
</table>

(1) Includes moneys on deposit in funds and accounts of the Prior Special Tax Bonds.
(2) Amounts in the Special Tax Refunding Bonds Purchase Fund will be used to purchase the Special Tax Refunding Bonds, net of the Series B Reserve Fund and Series C Reserve Fund transfers, Costs of Issuance, original purchaser’s discount, and Underwriter’s discount.
(3) Includes Underwriter’s discount, legal fees, Financial Advisor fees, printing fees, rating agency fees, Special Tax Consultant fees, Verification Agent fees and Trustee and Fiscal Agent fees.

The estimated sources and uses of funds with respect to the Special Tax Refunding Bonds and amounts transferred from the Prior Special Tax Bonds are set forth in the following table:

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
### TABLE 4
ESTIMATED SOURCES AND USES
SPECIAL TAX REFUNDING BONDS

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Series 2012A</th>
<th></th>
<th>Series 2012B</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Amount of Special Tax Refunding Bonds</td>
<td>$13,820,000.00</td>
<td></td>
<td>$4,240,000.00</td>
<td></td>
<td>$18,060,000.00</td>
</tr>
<tr>
<td>Plus/(Less) Net Original Issue Premium/(Discount)</td>
<td>22,651.90</td>
<td></td>
<td>95,427.45</td>
<td></td>
<td>72,775.55</td>
</tr>
<tr>
<td>Plus Other Available Moneys(^{(1)})</td>
<td>2,584,741.26</td>
<td></td>
<td>769,103.74</td>
<td></td>
<td>3,353,845.00</td>
</tr>
</tbody>
</table>

**Total Sources**  
$16,427,393.16  
$4,913,676.29  
$21,341,069.45

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th>Series 2012A</th>
<th></th>
<th>Series 2012B</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit to Escrow Fund(^{(2)})</td>
<td>$15,161,866.17</td>
<td></td>
<td>$4,511,495.24</td>
<td></td>
<td>$19,673,361.41</td>
</tr>
<tr>
<td>Transfer to Series B Reserve Fund</td>
<td>984,000.00</td>
<td></td>
<td></td>
<td></td>
<td>984,000.00</td>
</tr>
<tr>
<td>Transfer to Series C Reserve Fund</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td>307,500.00</td>
</tr>
<tr>
<td>Share of Costs of Issuance(^{(3)})</td>
<td>281,526.99</td>
<td></td>
<td>94,681.05</td>
<td></td>
<td>376,208.04</td>
</tr>
</tbody>
</table>

**Total Uses**  
$16,427,393.16  
$4,913,676.29  
$21,341,069.45

---

\(^{(1)}\) Includes moneys on deposit in funds and accounts of the Prior Special Tax Bonds.  
\(^{(2)}\) To be applied to refund the Prior Special Tax Bonds.  
\(^{(3)}\) Includes share of original purchaser’s premium/discount, legal fees, Financial Advisor fees, printing fees, rating agency fees, Special Tax Consultant fees, Verification Agent fees and Trustee and Fiscal Agent fees.

---

**THE BONDS**

**Description of the Bonds**

The Bonds will be issued in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof. The Bonds will be dated their date of delivery. The Bonds will bear interest at the rates per annum and will mature, subject to the redemption provisions set forth below, on the dates and in the principal amounts, all as set forth on the inside cover page hereof.

Interest on the Bonds is payable semiannually on each March 1 and September 1, commencing March 1, 2013 (each an “Interest Payment Date”), to the persons in whose names ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided in the Indenture. “Record Date” means, with respect to any Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless: (i) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date; (ii) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Dated Date provided in the Bond; or (iii) interest on any 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 been paid in full, payable on each Interest Payment Date. At the written request of the Owner of at least $1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Trustee prior to any Record Date, interest on such Bonds will be paid to such Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the United States designated in such written request.
The principal of and redemption premium, if any, on the Bonds will be paid in lawful money of the United States of America at the office of the Trustee upon presentation and surrender of the Bonds at maturity or the prior redemption thereof. The Bonds will mature on September 1 in the principal amounts and years as shown on the inside cover page hereof and are subject to optional redemption, mandatory redemption and mandatory sinking fund redemption as described under the caption “—Redemption.”

The Bonds will be issued in book-entry form, initially registered in the name of Cede & Co., as nominee of DTC. Payment of interest with respect to any Bond registered as of each Record Date in the name of Cede & Co. will be made by wire transfer of same-day funds to the account of Cede & Co. See Appendix E—“INFORMATION CONCERNING DTC.”

Redemption

Optional Redemption.

Series B Bonds. The Series B Bonds maturing on or after September 1, 2023 are subject to redemption prior to their stated maturity dates on September 1, 2022, and on any Interest Payment Date thereafter, as selected among maturities by the Authority (and by lot within any one maturity), as a whole or in part, in integral multiples of $5,000, at the option of the Authority from moneys derived by the Authority from any source other than Principal Prepayments resulting from Special Tax Prepayments, at a redemption price equal to the principal amount of the Series B Bonds to be redeemed, together with accrued interest to the date of redemption.

Series C Bonds. The Series C Bonds maturing on or after September 1, 2023 are subject to redemption prior to their stated maturity dates on September 1, 2022, and on any Interest Payment Date thereafter, as selected among maturities by the Authority (and by lot within any one maturity), as a whole or in part, in integral multiples of $5,000, at the option of the Authority from moneys derived by the Authority from any source other than Principal Prepayments resulting from Special Tax Prepayments, at a redemption price equal to the principal amount of the Series C Bonds to be redeemed, together with accrued interest to the date of redemption.

Mandatory Redemption from Redemption of Special Tax Refunding Bonds.

Series B Bonds. The Series B Bonds are not subject to mandatory redemption from Principal Prepayments (as such term is defined in Appendix B) resulting from Special Tax Prepayments with respect to the Special Tax Refunding Bonds so long as any Series C Bonds are Outstanding. If there are no Outstanding Series C Bonds, Series B Bonds will be subject to mandatory redemption from Principal Prepayments resulting from Special Tax Prepayments prior to their stated maturity dates on any Interest Payment Date, as selected among maturities by the Authority as provided in the Indenture (and by lot within any one maturity), in integral multiples of $5,000, from moneys derived by the Authority from such Principal Prepayments, at redemption prices (expressed as percentages of the principal amounts of the Series B Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<table>
<thead>
<tr>
<th>Redemption Date</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Interest Payment Date through March 1, 2020</td>
<td>103%</td>
</tr>
<tr>
<td>September 1, 2020 and March 1, 2021</td>
<td>102</td>
</tr>
<tr>
<td>September 1, 2021 and March 1, 2022</td>
<td>101</td>
</tr>
<tr>
<td>September 1, 2022 and any Interest Payment Date thereafter</td>
<td>100</td>
</tr>
</tbody>
</table>

The principal amount of Series B Bonds to be redeemed from any such Principal Prepayments will be the greatest principal amount of Series B Bonds, the redemption price of which is less than or equal to such Principal Prepayments, as specified in a Certificate of the Authority delivered to the Trustee. In the event that the Fiscal Agent mails notice of redemption of any Special Tax Refunding Bonds which will produce such
Principal Prepayments, the Trustee will concurrently mail notice of the redemption of Series B Bonds pursuant to the Indenture, such redemption to occur on the date fixed for redemption of such Special Tax Refunding Bonds. On the date of such redemption of such Special Tax Refunding Bonds, the proceeds of any such redemption will be applied by the Trustee to pay the redemption price of the Series B Bonds pursuant to the foregoing provisions.

For purposes of the selection of Series B Bonds for redemption pursuant to the Indenture, the Series B Bonds will be selected for redemption among maturities by the Authority (evidenced pursuant to a Certificate of the Authority delivered to the Trustee at least 45 days prior to the redemption date or such later date as is acceptable to the Trustee) on such basis that the debt service on the Special Tax Refunding Bonds on each Interest Payment Date will be sufficient to pay debt service on the Series B Bonds on such Interest Payment Date, as demonstrated in a report of an Independent Financial Consultant filed with the Trustee; provided, however, that no such report need be filed with the Trustee if, after such redemption, no Series B Bonds will be Outstanding.

**Series C Bonds.** The Series C Bonds are subject to mandatory redemption prior to their stated maturity dates on any Interest Payment Date, as selected among maturities by the Authority as provided in the Indenture (and by lot within any one maturity), in integral multiples of $5,000, from moneys derived by the Authority from Principal Prepayments resulting from Special Tax Prepayments with respect to the Special Tax Refunding Bonds, at a redemption price equal to the principal amounts of the Series C Bonds to be redeemed, together with accrued interest to the date of redemption.

The Authority has covenanted to redeem all of the Series C Bonds from Principal Prepayments with respect to the Special Tax Refunding Bonds prior to the redemption of any Series B Bonds from Principal Prepayments with respect to the Special Tax Refunding Bonds. See the caption “SECURITY FOR THE BONDS—Payment of the Special Tax Refunding Bonds—Mandatory Redemption of Special Tax Refunding Bonds.” For purposes of the selection of Series C Bonds for redemption pursuant to the Indenture, the Series C Bonds will be selected for redemption among maturities by the Authority (evidenced pursuant to a Certificate of the Authority delivered to the Trustee at least 60 days prior to the redemption date or such later date as is acceptable to the Trustee) on such basis that the debt service on the Special Tax Refunding Bonds on each Interest Payment Date will be sufficient to pay debt service on the Series B Bonds and Series C Bonds on such Interest Payment Date, as demonstrated in a report of an Independent Financial Consultant filed with the Trustee; provided, however, that no such report need be filed with the Trustee if, after such redemption, no Series B Bonds will be Outstanding. As described under the caption “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments,” certain developers within the Improvement Area have chosen to prepay Special Taxes from time to time.

**Mandatory Sinking Fund Redemption.**

**Series B Bonds.** The Outstanding Series B Bonds maturing on September 1, 2032 are subject to mandatory sinking fund redemption, in part, on September 1, 2028 and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, as follows:

<table>
<thead>
<tr>
<th>Redemption Date (September 1)</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2028</td>
<td>$660,000</td>
</tr>
<tr>
<td>2029</td>
<td>700,000</td>
</tr>
<tr>
<td>2030</td>
<td>735,000</td>
</tr>
<tr>
<td>2031</td>
<td>765,000</td>
</tr>
<tr>
<td>2032†</td>
<td>810,000</td>
</tr>
</tbody>
</table>

† Final Maturity.
The Outstanding Series B Bonds maturing on September 1, 2035 are subject to mandatory sinking fund redemption, in part, on September 1, 2033 and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, as follows:

<table>
<thead>
<tr>
<th>Redemption Date (September 1)</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2033</td>
<td>$845,000</td>
</tr>
<tr>
<td>2034</td>
<td>890,000</td>
</tr>
<tr>
<td>2035†</td>
<td>935,000</td>
</tr>
</tbody>
</table>

† Final Maturity.

If some but not all of the Series B Bonds maturing on September 1, 2032 or September 1, 2035 are redeemed pursuant to the optional redemption provisions of the Indenture, the principal amount of the Series B Bonds maturing on September 1, 2032 or September 1, 2035, as applicable, to be redeemed pursuant to the mandatory sinking fund redemption provisions of the Indenture on any subsequent September 1 will be reduced, by $5,000 or an integral multiple thereof, as designated by the Authority in a Certificate of the Authority filed with the Trustee; provided, however, that the aggregate amount of such reductions may not exceed the aggregate amount of Series B Bonds maturing on September 1, 2032 or September 1, 2035, as applicable, redeemed pursuant to the optional redemption provisions of the Indenture.

If some but not all of the Series B Bonds maturing on September 1, 2032 or September 1, 2035 are redeemed pursuant to the provisions in the Indenture relating to mandatory redemption from redemption of Special Tax Refunding Bonds, the principal amount of the Series B Bonds maturing on September 1, 2032 or September 1, 2035, as applicable, to be redeemed pursuant to the mandatory sinking fund redemption provisions of the Indenture on any subsequent September 1 will be reduced by the aggregate principal amount of the Series B Bonds maturing on September 1, 2032 or September 1, 2035, as applicable, redeemed pursuant to the provisions in the Indenture relating to mandatory redemption from redemption of Special Tax Refunding Bonds, such reduction to be allocated among redemption dates, as determined by the Trustee, so that following such redemption the remaining principal amount of each sinking fund payment on the Series B Bonds maturing on September 1, 2032 or September 1, 2035, as applicable, match the principal payment on the Special Tax Refunding Bonds due and payable on the same date, notice of which determination will be given by the Trustee to the Authority.

Series C Bonds. The Outstanding Series C Bonds maturing on September 1, 2035 are subject to mandatory sinking fund redemption, in part, on September 1, 2028 and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking fund payments as follows:

<table>
<thead>
<tr>
<th>Redemption Date (September 1)</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2028</td>
<td>$205,000</td>
</tr>
<tr>
<td>2029</td>
<td>215,000</td>
</tr>
<tr>
<td>2030</td>
<td>230,000</td>
</tr>
<tr>
<td>2031</td>
<td>240,000</td>
</tr>
<tr>
<td>2032</td>
<td>250,000</td>
</tr>
<tr>
<td>2033</td>
<td>265,000</td>
</tr>
<tr>
<td>2034</td>
<td>275,000</td>
</tr>
<tr>
<td>2035†</td>
<td>290,000</td>
</tr>
</tbody>
</table>

† Final Maturity.
If some but not all of the Series C Bonds maturing on September 1, 2035 are redeemed pursuant to the optional redemption provisions of the Indenture, the principal amount of the Series C Bonds maturing on September 1, 2035 to be redeemed pursuant to the mandatory sinking fund redemption provisions of the Indenture on any subsequent September 1 will be reduced, by $5,000 or an integral multiple thereof, as designated by the Authority in a Written Certificate of the Authority filed with the Trustee; provided, however, that the aggregate amount of such reductions may not exceed the aggregate amount of Series C Bonds maturing on September 1, 2035 redeemed pursuant to the optional redemption provisions of the Indenture.

If some but not all of the Series C Bonds maturing on September 1, 2035 are redeemed pursuant to the provisions in the Indenture relating to mandatory redemption from redemption of Special Tax Refunding Bonds, the principal amount of the Series C Bonds maturing on September 1, 2035 to be redeemed pursuant to the mandatory sinking fund redemption provisions of the Indenture on any subsequent September 1 will be reduced by the aggregate principal amount of the Series C Bonds maturing on September 1, 2035 redeemed pursuant to the provisions in the Indenture relating to mandatory redemption from redemption of Special Tax Refunding Bonds, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of $5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination will be given by the Trustee to the Authority.

Notice of Redemption

If Bonds are to be redeemed, the Trustee, on behalf and at the expense of the Authority, will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services, at least 30 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice will state the date of the notice, the redemption date, the redemption place, the redemption price and designate the CUSIP numbers and the serial numbers of the Bonds of each maturity or maturities (except that in the event of redemption of all of the Bonds of any maturity in whole, the Trustee will designate such maturity without referencing the number of each individual Bond) of the Bonds to be redeemed, and require that such Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. Such notice may also provide that redemption of the Bonds to be redeemed is contingent upon receipt by the Trustee, on or before the redemption date, of moneys sufficient to pay the redemption price for the Bonds to be redeemed, and that such notice will be cancelled and of no further effect if such moneys are not so received by the Trustee. The Trustee is not responsible for giving notice of redemption unless it receives notice of such redemption from the Authority at least 45 days prior to the date of redemption. The foregoing provisions are not applicable if Bonds are to be redeemed pursuant to the mandatory sinking fund redemption provisions of the Indenture.

Any notice of optional redemption or mandatory redemption from redemption of Special Tax Refunding Bonds delivered in accordance with the Indenture may be conditional and if any condition stated in the notice of redemption has not been satisfied on or prior to the redemption date, said notice will be of no force and effect and the Authority will not be required to redeem such Bonds, and the redemption will not be made and the Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

The Authority may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption moneys are not available in the Revenue Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any
premium due on the Bonds 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 is not 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.

**Effect of Redemption**

From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Bonds called for redemption have been duly provided, such Bonds will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date specified in such notice. All Bonds redeemed pursuant to the Indenture will be cancelled and surrendered by the Trustee to the Authority.

**Partial Redemption of Bonds**

In the event that only a portion of any Bond is called for redemption, upon surrender of such Bond the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series and maturity date, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

**Purchase in Lieu of Redemption**

In lieu of any optional, mandatory or mandatory sinking fund redemption, the Authority may elect to purchase the Series B Bonds or the Series C Bonds, as applicable, at public or private sale as and when, and at such prices as such written direction may provide; provided, that, unless otherwise authorized by law, the purchase price (including brokerage and other charges) thereof may not exceed the principal amount thereof, plus accrued interest to the purchase date and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Indenture.

**Transfers and Exchange**

So long as the Bonds remain in book-entry form, transfer and exchange of any of the Bonds will be accomplished in accordance with the provisions of such book-entry system. In the event of termination of such book-entry system with respect to the Bonds, the Bonds may be transferred and exchanged in accordance with the terms of the Indenture. See Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF BOND DOCUMENTS” and Appendix E—“INFORMATION CONCERNING DTC.”
Debt Service Schedule

The following is the debt service schedule for the Bonds, assuming no redemptions.

**TABLE 5**

DEBT SERVICE SCHEDULE

<table>
<thead>
<tr>
<th>Year Ending (September 1)</th>
<th>Series B Bonds</th>
<th>Series C Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>---------------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>2013</td>
<td>$ 295,000</td>
<td>$ 681,488.82</td>
</tr>
<tr>
<td>2014</td>
<td>415,000</td>
<td>563,325.00</td>
</tr>
<tr>
<td>2015</td>
<td>430,000</td>
<td>550,875.00</td>
</tr>
<tr>
<td>2016</td>
<td>445,000</td>
<td>537,975.00</td>
</tr>
<tr>
<td>2017</td>
<td>455,000</td>
<td>524,625.00</td>
</tr>
<tr>
<td>2018</td>
<td>470,000</td>
<td>510,975.00</td>
</tr>
<tr>
<td>2019</td>
<td>485,000</td>
<td>496,875.00</td>
</tr>
<tr>
<td>2020</td>
<td>495,000</td>
<td>482,325.00</td>
</tr>
<tr>
<td>2021</td>
<td>510,000</td>
<td>467,475.00</td>
</tr>
<tr>
<td>2022</td>
<td>525,000</td>
<td>450,900.00</td>
</tr>
<tr>
<td>2023</td>
<td>545,000</td>
<td>432,525.00</td>
</tr>
<tr>
<td>2024</td>
<td>570,000</td>
<td>412,768.76</td>
</tr>
<tr>
<td>2025</td>
<td>590,000</td>
<td>391,393.76</td>
</tr>
<tr>
<td>2026</td>
<td>615,000</td>
<td>367,793.76</td>
</tr>
<tr>
<td>2027</td>
<td>635,000</td>
<td>343,193.76</td>
</tr>
<tr>
<td>2028</td>
<td>660,000</td>
<td>317,000.00</td>
</tr>
<tr>
<td>2029</td>
<td>700,000</td>
<td>284,000.00</td>
</tr>
<tr>
<td>2030</td>
<td>735,000</td>
<td>249,000.00</td>
</tr>
<tr>
<td>2031</td>
<td>765,000</td>
<td>212,250.00</td>
</tr>
<tr>
<td>2032</td>
<td>810,000</td>
<td>174,000.00</td>
</tr>
<tr>
<td>2033</td>
<td>845,000</td>
<td>133,500.00</td>
</tr>
<tr>
<td>2034</td>
<td>890,000</td>
<td>91,250.00</td>
</tr>
<tr>
<td>2035</td>
<td>935,000</td>
<td>46,750.00</td>
</tr>
</tbody>
</table>

Total $ 13,820,000 $ 8,722,263.86 $ 22,542,263.86 $ 4,240,000 $ 2,769,860.04 $ 7,009,860.04 $29,552,123.90

Source: Piper Jaffray & Co.

Debt Service Coverage for the Bonds

Set forth in Table 6 below are the projected sources of Revenues that will be generated by the anticipated payment of debt service on the Special Tax Refunding Bonds while the Bonds are outstanding.

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### TABLE 6

**SOURCES OF REVENUES FROM SPECIAL TAX REFUNDING BONDS**

<table>
<thead>
<tr>
<th>Bond Year</th>
<th>Special Tax Refunding Bond Debt Service</th>
<th>Bond Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Series 2012A</strong></td>
<td><strong>Series 2012B</strong></td>
</tr>
<tr>
<td>2013</td>
<td>$976,488.82</td>
<td>$304,422.50</td>
</tr>
<tr>
<td>2014</td>
<td>978,325.00</td>
<td>302,300.00</td>
</tr>
<tr>
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(1) Reflects Total Special Tax Refunding Bond Debt Service divided by Total Bond Debt Service. Surplus Revenues, if any, will be credited toward the following Fiscal Year’s Special Tax levy.

Source: Piper Jaffray & Co.

**SECURITY FOR THE BONDS**

**Repayment of the Bonds**

The Bonds are special, limited obligations of the Authority. The Series B Bonds are payable solely from and secured by a first lien upon and pledge of Revenues, consisting of debt service payments on the Special Tax Refunding Bonds received by the Authority, as the registered owner of the Special Tax Refunding Bonds, and amounts in certain funds and accounts pledged to the Series B Bonds under the Indenture. The Series C Bonds are payable solely from and secured by a lien upon and pledge of the Subordinated Revenues, consisting of debt service payments on the Special Tax Refunding Bonds received by the Authority, as the registered owner of the Special Tax Refunding Bonds, subordinate to the lien upon and pledge of Revenues securing the Series B Bonds, and amounts in certain funds and accounts pledged to Series C Bonds under the Indenture. Subordinated Revenues will be available to pay the Series C Bonds only after all payments and deposits in respect of the Series B Bonds have been made as provided in the Indenture. Debt service payments on the Special Tax Refunding Bonds have been calculated to be sufficient to permit the Authority to pay debt service on the Bonds when due. The City has determined that it will not obligate itself to advance funds from its treasury to cover any delinquency on the Special Tax Refunding Bonds.
**General.** Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Series B Bonds are secured by a first lien upon and pledge (which will be perfected in the manner and to the extent provided in the Indenture) of all of the Revenues and a pledge of all of the moneys in the Series B Interest Account and the Series B Principal Account of the Revenue Fund and in the Series B Reserve Fund, including all amounts derived from the investment of such moneys. The Series B Bonds will be equally secured by a pledge of, and charge and lien upon, the Revenues without priority for number, date of execution or date of delivery; and the payment of the interest on and principal of the Series B Bonds and the premium, if any, upon the redemption of any thereof will be and is secured by a first and prior pledge, charge and lien upon the Revenues and such moneys. So long as any of the Series B Bonds are Outstanding, the Revenues will not be used for any purpose except as is expressly permitted by the Indenture. In addition, and subject to the limitations set forth in the Indenture, amounts in the Series B Reserve Fund will be applied to pay the principal of, including sinking fund payments, and interest on the Series B Bonds when due in the event that the moneys in the Series B Interest Account and/or the Series B Principal Account of the Revenue Fund are insufficient therefor. Moneys held in the Series C Reserve Fund described in the following paragraph will not be available for payment of the Series B Bonds.

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Series C Bonds are secured by a lien upon and pledge (which will be effected in the manner and the extent provided in the Indenture) of all of the Subordinated Revenues and a pledge of all of the moneys in the Series C Interest Account and the Series C Principal Account of the Revenue Fund and in the Series C Reserve Fund. The Series C Bonds will be equally secured by a pledge of, and charge and lien upon, the Subordinated Revenues without priority for number, date of execution or date of delivery; and the payment of the interest on and principal of the Series C Bonds and the premium, if any, upon the redemption of any thereof will be and is secured by a pledge, charge and lien upon the Subordinated Revenues. So long as any of the Series C Bonds are outstanding, the Subordinated Revenues will not be used for any purpose except as is expressly permitted by the Indenture. In addition, and subject to the limitations set forth in the Indenture, amounts in the Series C Reserve Fund will be applied to pay the principal of, including sinking fund payments, and interest on the Series C Bonds when due in the event that the moneys in the Series C Interest Account and/or the Series C Principal Account of the Revenue Fund are insufficient therefor. Moneys held in the Series B Reserve Fund described in the preceding paragraph will not be available for payment of the Series C Bonds.

The Revenues and the Subordinated Revenues will be obtained by the Authority primarily from payments of the principal of, interest and premium, if any, on the Special Tax Refunding Bonds. The Special Tax Refunding Bonds, and the interest thereon, are payable from the annual Special Taxes levied and collected on real property within the Improvement Area subject to the Special Taxes, and the proceeds, if any, from the sale of property for delinquency of such Special Taxes. Annual payments of the principal of, and interest on, the Special Tax Refunding Bonds will be made from the Special Taxes collected during that year. See the caption “—Payment of the Special Tax Refunding Bonds.”

**Revenue Fund.** Subject to the Indenture, all amounts received from the Special Tax Refunding Bonds will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Revenue Fund,” which the Trustee will establish, maintain and hold in trust under the Indenture, and which will include a Series B Interest Account, a Series B Principal Account, a Series C Interest Account and a Series C Principal Account. See the caption “—Reserve Funds” below for information with respect to the Series B Reserve Fund and the Series C Reserve Fund.

**Series B Bonds.** On or before each Interest Payment Date, the Trustee will transfer from the Revenue Fund, and deposit into the following respective accounts for the Series B Bonds, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:
Series B Interest Account. On or before each date on which interest on the Series B Bonds becomes due and payable, the Trustee will deposit in the Series B Interest Account the amounts required to cause the aggregate amount on deposit in the Series B Interest Account to equal the amounts of interest becoming due and payable on the Series B Bonds on such date. No deposit need be made into the Series B Interest Account on any date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Series B Bonds on such date. All moneys in the Series B Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series B Bonds, as it becomes due and payable (including accrued interest on any Series B Bonds redeemed prior to maturity). In the event that the amounts on deposit in the Series B Interest Account on any Interest Payment Date, after any transfers from the Series B Reserve Fund pursuant to the Indenture, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series B Bonds, the Trustee will apply such amounts to the payment of interest on each of the Outstanding Series B Bonds on a pro rata basis.

Series B Principal Account. On each March 1, the Trustee will deposit in the Series B Principal Account an amount equal to one-half of the principal amount of the Series B Bonds that will become due and payable on the next succeeding September 1. On each September 1 on which principal of the Series B Bonds is payable, the Trustee will deposit in the Series B Principal Account an amount required to cause the aggregate amount on deposit in the Series B Principal Account to equal the principal amount of, and premium (if any) on, the Series B Bonds coming due and payable on such date, or required to be redeemed on such date pursuant to the Indenture; provided, however, that no amount will be deposited to effect a redemption pursuant to the Indenture unless the Trustee has first received a certificate of an Independent Financial Consultant certifying that such deposit to effect an optional redemption of the Series B Bonds will not impair the ability of the Authority to make timely payment of the principal of and interest on the Series B Bonds, assuming for such purposes that the Community Facilities District continues to make timely payments on all Special Tax Refunding Bonds not then in default. All moneys in the Series B Principal Account will be used and withdrawn by the Trustee solely for the purpose of: (i) paying the principal of the Series B Bonds at the maturity thereof; or (ii) paying the principal of and premium (if any) on any Series B Bonds upon the redemption thereof pursuant to the Indenture.

Series B Reserve Fund. On each Interest Payment Date on which the balance in the Series B Reserve Fund is less than the Series B Reserve Requirement, after making deposits required under the first two orders of priority above, the Trustee will transfer from the Revenue Fund an amount sufficient to increase the balance in the Series B Reserve Fund to the Series B Reserve Requirement, provided that the value of the moneys deposited therein, as invested, is valued at market value on such transfer date for purposes of making such determination. See the caption “—Reserve Funds—Series B Reserve Fund” below for further information with respect to the Series B Reserve Fund.

Special Tax Refunding Bonds Delinquency Revenues. The Trustee will disburse or transfer all Revenues representing Special Tax Refunding Bonds Delinquency Revenues in the following order of priority: First, to make payments required pursuant to Indenture upon the occurrence of a Series B Event of Default as described in the Indenture; Second, to the Series B Reserve Fund to replenish the amount on deposit therein to the Series B Reserve Requirement; and Third, to make the deposits specified in the first three orders of priority above.

Series C Bonds. On each Interest Payment Date after making the deposits required above with respect to Series B Bonds, subject to the Indenture, the Trustee will transfer from the Revenue Fund, and deposit into the following respective accounts, Subordinated Revenues in the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Subordinated Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:
(1) **Series C Interest Account.** On or before each date on which interest on the Series C Bonds becomes due and payable, the Trustee will deposit Subordinated Revenues in the Series C Interest Account in an amount required to cause the aggregate amount on deposit in the Series C Interest Account to equal the amount of interest becoming due and payable on the Series C Bonds on such date. No deposit need be made into the Series C Interest Account on any date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Series C Bonds on such date. All moneys in the Series C Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series C Bonds, as it becomes due and payable (including accrued interest on any Series C Bonds redeemed prior to maturity). In the event that the amounts on deposit in the Series C Interest Account on any Interest Payment Date, after any transfers from the Series C Reserve Fund pursuant to the Indenture, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series C Bonds, the Trustee will apply such amounts to the payment of interest on each of the Outstanding Series C Bonds on a pro rata basis.

(2) **Series C Principal Account.** On each September 1 on which principal of the Series C Bonds is payable, the Trustee will deposit Subordinated Revenues in the Series C Principal Account in an amount required to cause the aggregate amount on deposit in the Series C Principal Account to equal the principal amount of, and premium (if any) on, the Series C Bonds coming due and payable on such date, or required to be redeemed on such date pursuant to the Indenture; provided, however, that no amount will be deposited to effect a redemption pursuant to the Indenture unless the Trustee has first received a certificate of an Independent Financial Consultant certifying that such deposit to effect an optional redemption of the Series C Bonds will not impair the ability of the Authority to make timely payment of the principal of and interest on the Series C Bonds, assuming for such purposes that the Community Facilities District continues to make timely payments on all Special Tax Refunding Bonds not then in default. All moneys in the Series C Principal Account will be used and withdrawn by the Trustee solely for the purpose of: (i) paying the principal of the Series C Bonds at the maturity thereof; or (ii) paying the principal of and premium (if any) on any Series C Bonds upon the redemption thereof pursuant to the Indenture.

(3) **Series C Reserve Fund.** On each Interest Payment Date on which the balance in the Series C Reserve Fund is less than the Series C Reserve Requirement, after making deposits required under the first two orders of priority above, the Trustee will transfer from the Revenue Fund an amount sufficient to increase the balance in the Series C Reserve Fund to the Series C Reserve Requirement, provided that the value of the moneys deposited therein, as invested, will be valued at market value on such transfer date for purposes of making such determination. See the caption “—Reserve Funds—Series C Reserve Fund” below for further information with respect to the Series C Reserve Fund.

(4) **Special Tax Refunding Bonds Delinquency Revenues.** The Trustee will disburse or transfer all Subordinated Revenues representing Special Tax Refunding Bonds Delinquency Revenues in the following order of priority: First, to make payments required pursuant to the Indenture upon the occurrence of a Series C Event of Default as described in the Indenture; Second, to the Series C Reserve Fund to replenish the amount on deposit therein to the Series C Reserve Requirement; and Third, to make the deposits specified in the first three orders of priority above.

**Additional Provisions Relating to Application of Revenues.** If on any Interest Payment Date or date for redemption the amount on deposit in the Revenue Fund is inadequate to make the transfers described under the captions “—Series B Bonds” and “—Series C Bonds” above as a result of a payment default on the Special Tax Refunding Bonds, the Trustee will immediately notify the Community Facilities District of the amount needed to make the required deposits. In the event that following such notice the Trustee receives additional payments from the Community Facilities District to cure such shortfall, the Trustee will deposit such amounts to the Revenue Fund for application in accordance with the provisions described under the captions “—Series B Bonds” and “—Series C Bonds” above.
On each Interest Payment Date after making the transfers required under the Indenture, upon receipt of a Certificate of the Authority to do so, the Trustee will transfer from the Revenue Fund to the Rebate Fund for deposit in the amount specified in such Certificate.

On June 30, after making the deposits required under the Indenture for the preceding March 1 Interest Payment Date and making the determination that there are adequate revenues on deposit with the Fiscal Agent and available to make the scheduled Debt Service payment on the Special Tax Refunding Bonds due on the following September 1 Interest Payment Date, and on September 1 of each year, after making the deposits required under the Indenture for such September 1 Interest Payment Date, the Trustee will transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund. See the caption “—Surplus Fund” below.

**Surplus Fund.** Any amounts transferred to the Surplus Fund pursuant to the Indenture will no longer be considered Revenues or Subordinated Revenues and are not pledged to repay the Bonds. So long as Special Tax Refunding Bonds are outstanding, on July 1 and September 2 of each year, the remaining balance, if any, in the Surplus Fund will: (i) be transferred by the Trustee to the Fiscal Agent for credit to the Special Tax Fund; or (ii) as set forth in a Certificate of the District be applied to the redemption of Special Tax Refunding Bonds pursuant to the terms of the Special Tax Refunding Bonds Fiscal Agent Agreement. In the event that the Community Facilities District is no longer obligated to levy Special Taxes to repay Special Tax Refunding Bonds, then any amounts in the Surplus Fund may be used by the Authority for any lawful purpose, including, but not limited to, the payment of expenses of the Authority, the City or the Community Facilities District relating to the Bonds, the Special Tax Refunding Bonds, the Community Facilities District, or any other purpose as specified in a Certificate of the Authority delivered to the Trustee.

On September 1 of the Bond Year preceding the Bond Year of the final maturity of the Bonds, the remaining balance in the Surplus Fund will be transferred by the Trustee to the Fiscal Agent for credit to the Special Tax Fund. Such amounts will be applied to reduce debt service payments on Special Tax Refunding Bonds.

See Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF BOND DOCUMENTS.”

**Reserve Funds.**

**Series B Reserve Fund.** The Trustee will establish and maintain a separate fund to be known as the “Series B Reserve Fund” which will be administered as provided in the Indenture.

There will be maintained in the Series B Reserve Fund an amount equal to the Series B Reserve Requirement (as such term is defined in Appendix B). Moneys in the Series B Reserve Fund will be used solely for the purposes set forth in the Indenture. Subject to the limitations set forth in the following paragraph, amounts in the Series B Reserve Fund will be applied to pay the principal of, including sinking fund payments, and interest on the Series B Bonds when due in the event that the moneys in the Series B Interest Account and/or the Series B Principal Account of the Revenue Fund are insufficient therefor. If the amounts in the Series B Interest Account and/or the Series B Principal Account of the Revenue Fund are insufficient to pay the principal of, including sinking fund payments, or interest on the Series B Bonds when due, the Trustee will withdraw from the Series B Reserve Fund for deposit in the Series B Interest Account and/or the Series B Principal Account, as applicable, moneys necessary for such purposes.

In addition, amounts, if any, in the Series B Reserve Fund may be applied in connection with an optional redemption or a mandatory redemption pursuant to the Indenture or a defeasance of the Series B Bonds in whole or in part in accordance with the following sentence, or when the balance therein equals the principal and interest due on the Series B Bonds to and including maturity to pay the principal of and interest due on the Series B Bonds to maturity. Any amounts that would otherwise be on deposit in the Series B Reserve Fund following any such optional redemption, mandatory redemption or defeasance that will be in
excess of the Series B Reserve Requirement following such event will be applied toward such optional redemption, mandatory redemption or defeasance, as applicable.

In the event that the Series C Bonds are no longer Outstanding and the Trustee receives a written notice from the Community Facilities District executed by an Authorized Representative of the Community Facilities District notifying the Trustee of the Prepayment of the Special Tax obligation for any parcel and requesting the transfer of the applicable Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent, the Trustee will not less than five Business Days prior to the redemption date of the Special Tax Refunding Bonds from the Prepayment transfer an amount equal to the Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent.

On each September 2nd during the term of the Series B Bonds, the Trustee will calculate the Series B Reserve Requirement for the Bond Year commencing on such September 2nd. If the amount then on deposit in the Series B Reserve Fund exceeds the Series B Reserve Requirement as of the date of such calculation (the “Excess Series B Reserve Fund Amount”), the Trustee will not less than five Business Days thereafter transfer the Excess Series B Reserve Fund Amount to the Revenue Fund to be applied in accordance with the Indenture.

Investment earnings on the investment of money on deposit in the Series B Reserve Fund will be deposited in the Series B Reserve Fund.

**Amounts held in the Series B Reserve Fund do not secure the Series C Bonds.**

**Series C Reserve Fund.** The Trustee will establish and maintain a separate fund to be known as the “Series C Reserve Fund” which will be administered as provided in the Indenture.

There will be deposited and maintained in the Series C Reserve Fund an amount equal to the Series C Reserve Requirement (as such term is defined in Appendix B). Moneys in the Series C Reserve Fund will be used solely for the purposes set forth in the Indenture. Subject to the limitations set forth in the following paragraph, amounts in the Series C Reserve Fund will be applied to pay the principal of, including sinking fund payments, and interest on the Series C Bonds when due in the event that the moneys in the Series C Interest Account and/or the Series C Principal Account of the Revenue Fund are insufficient therefor. If the amounts in the Series C Interest Account and/or the Series C Principal Account of the Revenue Fund are insufficient to pay the principal of, including sinking fund payments, or interest on the Series C Bonds when due, the Trustee will withdraw from the Series C Reserve Fund for deposit in the Series C Interest Account and/or the Series C Principal Account, as applicable, moneys necessary for such purposes.

In addition, amounts, if any, in the Series C Reserve Fund may be applied in connection with an optional redemption or a mandatory redemption pursuant to the Indenture or a defeasance of the Series C Bonds in whole or in part in accordance with the following sentence, or when the balance therein equals the principal and interest due on the Series C Bonds to and including maturity to pay the principal of and interest due on the Bonds to maturity. Any amounts that would otherwise be on deposit in the Series C Reserve Fund following any such optional redemption, mandatory redemption or defeasance that will be in excess of the Series C Reserve Requirement following such event will be applied toward such optional redemption, mandatory redemption or defeasance, as applicable.

In the event that the Trustee receives a written notice from the Community Facilities District executed by an Authorized Representative of the Community Facilities District notifying the Trustee of the Prepayment of the Special Tax obligation for any parcel and requesting the transfer of the applicable Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent, the Trustee will not less than five Business Days prior to the redemption date of the Special Tax Refunding Bonds from the Prepayment transfer an amount equal to the Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent.
On each September 2nd during the term of the Series C Bonds, the Trustee will calculate the Series C Reserve Requirement for the Bond Year commencing on such September 2nd. If the amount then on deposit in the Series C Reserve Fund exceeds the Series C Reserve Requirement as of the date of such calculation (the “Excess Series C Reserve Fund Amount”), the Trustee will not less than five Business Days thereafter transfer the Excess Series C Reserve Fund Amount to the Revenue Fund. Investment earnings on the investment of money on deposit in the Series C Reserve Fund will be deposited in the Series C Reserve Fund.

Amounts held in the Series C Reserve Fund do not secure the Series B Bonds.

Payment of the Special Tax Refunding Bonds

General. Each series of Special Tax Refunding Bonds is payable on a parity basis solely from and secured by a first pledge of all of the Net Special Tax Revenues levied against certain taxable real property within the Improvement Area and all moneys deposited in the Bond Fund established under the Special Tax Refunding Bonds Fiscal Agent Agreement (the “Bond Fund”) and, until disbursed as provided in the Special Tax Refunding Bonds Fiscal Agent Agreement, in the Special Tax Fund. See the captions “THE FINANCING PLAN” and “THE COMMUNITY FACILITIES DISTRICT.”

“Net Special Tax Revenues” means, for each Fiscal Year, all Special Tax Revenues received by the Community Facilities District minus an amount equal to the Administrative Expense Requirement, consisting of an annual amount equal to $80,000 or such lesser amount as may be designated by the Community Facilities District for the payment of Administrative Expenses, for such Fiscal Year.

“Administrative Expenses” means any or all of the following: the fees and expenses of the Fiscal Agent (including the fees and expenses of its counsel), the expenses of the City or the Community Facilities District in carrying out its duties under the Special Tax Refunding Bonds Fiscal Agent Agreement (including, but not limited to, the levying and collection of the Special Taxes, complying with the disclosure provisions of the CFD Act, the Continuing Disclosure Agreement and the Special Tax Refunding Bonds Fiscal Agent Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Special Tax Refunding Bond owners and the Original Purchaser); the costs of the City and the Community Facilities District or their designees related to an appeal of the Special Tax; any costs of the City and the Community Facilities District (including fees and expenses of counsel) to defend the first lien on and pledge of the Special Taxes to the payment of the Special Tax Refunding Bonds or otherwise in respect of litigation relating to the Community Facilities District or the Special Tax Refunding Bonds or with respect to any other obligations of the Community Facilities District; the Authority Administrative Expenses (as such term is defined in the Indenture), the salaries of City staff directly related to the carrying out of the obligations under the Special Tax Refunding Bonds Fiscal Agent Agreement or the Indenture and a proportionate amount of City general administrative overhead related thereto allocable to the Special Tax Refunding Bonds; and all other costs and expenses of the City, the Community Facilities District, and the Fiscal Agent incurred in connection with the discharge of their respective duties under the Special Tax Refunding Bonds Fiscal Agent Agreement, and in the case of the City, in any way related to the administration of the Community Facilities District and all actual costs and expenses incurred in connection with the administration of the Special Tax Refunding Bonds.

Special Taxes. The proceeds of the Special Taxes received by the Community Facilities District, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest and penalties thereon, but excluding any attorney’s fees or costs recovered by the City or the Community Facilities District in connection with the collection of delinquent Special Taxes (collectively, the “Special Tax Revenues”) and any moneys deposited in the Bond Fund, and until disbursed, in the Special Tax Fund received by the Community Facilities District, will constitute a trust fund for the payment of the principal of, and interest on, the Special Tax Refunding Bonds.
Principal of and interest and premium, if any, on the Special Tax Refunding Bonds will be paid by the Fiscal Agent to the Trustee, as the registered owner of the Special Tax Refunding Bonds, on behalf of the Authority, out of the Bond Fund and Special Tax Fund established by the Special Tax Refunding Bonds Fiscal Agent Agreement to the extent that funds on deposit in such funds are available therefor.

**Limitations on Special Taxes.** The amount of Special Taxes that the Community Facilities District may levy in any year is strictly limited by the maximum rates approved by the qualified electors within the Community Facilities District. Notwithstanding the foregoing, under no circumstances will the Special Tax levied in any Fiscal Year against any Assessor’s Parcel of Developed Property (as such term is defined in the hereinafter defined Rate and Method) for which an occupancy permit for private residential use has been issued be increased by more than 10% per Fiscal Year above the amount that would have been levied in such Fiscal Year had there never been a delinquency or default by the owner of any other Assessor’s Parcel within the Improvement Area. See Appendix F for further information with respect to the Rate and Method of Apportionment of the Special Taxes.

**Optional Redemption of Special Tax Refunding Bonds.**

**Series 2012A Special Tax Refunding Bonds.** The Series 2012A Special Tax Refunding Bonds maturing on or after September 1, 2023 may be redeemed at the option of the Community Facilities District from any source of funds other than prepayment of Special Taxes, prior to their stated maturity, as a whole or in part (in integral multiples of $5,000) on any Interest Payment Date on or after September 1, 2022, from such maturities as are selected by the Community Facilities District, and by lot within a maturity, at a redemption price equal to the principal amount of the Series 2012A Special Tax Refunding Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption.

Notwithstanding the above, such optional redemption of the Series 2012A Special Tax Refunding Bonds in whole or in part will occur only if the Community Facilities District first delivers to the Fiscal Agent and the Trustee a certificate of an Independent Financial Consultant verifying that, following such redemption of such Series 2012A Special Tax Refunding Bonds, the principal and interest due on the Outstanding Special Tax Refunding Bonds, if any, is adequate to make the timely payment of principal, including mandatory sinking fund payments, and interest due on the Bonds that will remain outstanding following the corresponding redemption of the Bonds resulting from such mandatory redemption of such Series 2012A Special Tax Refunding Bonds.

**Series 2012B Special Tax Refunding Bonds.** The Series 2012B Special Tax Refunding Bonds maturing on or after September 1, 2023 may be redeemed at the option of the Community Facilities District from any source of funds other than prepayment of Special Taxes, prior to their stated maturity, as a whole or in part (in integral multiples of $5,000) on any Interest Payment Date on or after September 1, 2022, from such maturities as are selected by the Community Facilities District, and by lot within a maturity, at a redemption price equal to the principal amount of the Series 2012B Special Tax Refunding Bonds or portions thereof to be redeemed, together with accrued interest thereon to the date fixed for redemption.

Notwithstanding the above, such optional redemption of the Series 2012B Special Tax Refunding Bonds in whole or in part will occur only if the Community Facilities District first delivers to the Fiscal Agent and the Trustee a certificate of an Independent Financial Consultant verifying that, following such redemption of such Series 2012B Special Tax Refunding Bonds, the principal and interest due on the Outstanding Special Tax Refunding Bonds, if any, is adequate to make the timely payment of principal, including mandatory sinking fund payments, and interest due on the Bonds that will remain outstanding following the corresponding redemption of the Bonds resulting from such mandatory redemption of such Series 2012B Special Tax Refunding Bonds.
**Mandatory Redemption of Special Tax Refunding Bonds.**

**Series 2012A Special Tax Refunding Bonds.** The Series 2012A Special Tax Refunding Bonds are not subject to mandatory redemption from the Prepayment of Special Tax so long as any Series 2012B Special Tax Refunding Bonds are Outstanding.

If there are no Outstanding Series 2012B Special Tax Refunding Bonds, the Series 2012A Special Tax Refunding Bonds will be subject to redemption on any Interest Payment Date, prior to maturity, as a whole or in part from such maturities, as are selected by the Community Facilities District, from the prepayment of Special Taxes at the following redemption prices (expressed as percentages of the principal amount of the Series 2012A Special Tax Refunding Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<table>
<thead>
<tr>
<th>Redemption Date</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Interest Payment Date through March 1, 2020</td>
<td>103%</td>
</tr>
<tr>
<td>September 1, 2020 and March 1, 2021</td>
<td>102</td>
</tr>
<tr>
<td>September 1, 2021 and March 1, 2022</td>
<td>101</td>
</tr>
<tr>
<td>September 1, 2022 and any Interest Payment Date thereafter</td>
<td>100</td>
</tr>
</tbody>
</table>

Notwithstanding the above, such mandatory redemption of the Series 2012A Special Tax Refunding Bonds in whole or in part will occur only if the Community Facilities District first delivers to the Fiscal Agent and the Trustee a certificate of an Independent Financial Consultant verifying that, following such redemption of the Series 2012A Special Tax Refunding Bonds, the principal and interest due on the Outstanding Special Tax Refunding Bonds, if any, is adequate to make the timely payment of principal, including mandatory sinking fund payments, and interest due on the Bonds that will remain outstanding following the corresponding redemption of the Bonds resulting from such mandatory redemption of such Series 2012A Special Tax Refunding Bonds.

**Series 2012B Special Tax Refunding Bonds.** The Series 2012B Special Tax Refunding Bonds will be subject to redemption on any Interest Payment Date, prior to maturity, as a whole or in part from such maturities as are selected by the Community Facilities District, from the prepayment of Special Taxes at a redemption price equal to the principal amount of the Series 2012B Bonds to be redeemed, together with accrued interest thereon to the date of redemption.

Notwithstanding the above, such mandatory redemption of the Series 2012B Special Tax Refunding Bonds in whole or in part will occur only if the Community Facilities District first delivers to the Fiscal Agent and the Trustee a certificate of an Independent Financial Consultant verifying that, following such redemption of the Series 2012B Special Tax Refunding Bonds, the principal and interest due on the Outstanding Special Tax Refunding Bonds, if any, is adequate to make the timely payment of principal, including mandatory sinking fund payments, and interest due on the Bonds that will remain outstanding following the corresponding redemption of the Bonds resulting from such mandatory redemption of such Series 2012B Special Tax Refunding Bonds.

As described under the caption “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments,” developers within the Improvement Area have recently chosen to prepay Special Taxes upon the sale of property to individual owners.

**Parity Special Tax Refunding Bonds.** The Community Facilities District will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Special Tax Refunding Bonds superior to or on a parity with the pledge and lien of the Special Tax Refunding Bonds Fiscal Agent Agreement created for the benefit of the Special Tax Refunding Bonds, except as permitted by the Special Tax Refunding Bonds Fiscal Agent Agreement.
The Community Facilities District has covenanted in the Special Tax Refunding Bonds Fiscal Agent Agreement that it will not issue any other obligations payable, principal or interest, from the Special Taxes which have, or purport to have, any lien upon the Special Taxes superior to or on a parity with the lien of the Special Tax Refunding Bonds so long as the Bonds are Outstanding. Nothing in the Special Tax Refunding Bonds Fiscal Agent Agreement, however, prevents the Community Facilities District, following the defeasance or redemption of the Bonds in full, from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Special Taxes on a parity with the Outstanding Special Tax Refunding Bonds, provided that the debt service on the remaining Outstanding Special Tax Refunding Bonds and the refunding bonds or other refunding obligations in each Bond Year after such refunding is equal to or less than debt service on the Outstanding Special Tax Refunding Bonds in each Bond Year preceding such refunding.

Levy and Collection of Special Taxes

The Special Taxes are to be levied and collected by the Treasurer-Tax Collector of the County of San Diego in the same manner and at the same time as ad valorem property taxes; provided, however, that the Community Facilities District may directly bill the Special Tax or collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The Community Facilities District has made certain covenants in the Special Tax Refunding Bonds Fiscal Agent Agreement for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the Community Facilities District’s ability to collect sufficient Special Taxes to pay debt service on the Special Tax Refunding Bonds and administrative expenses when due in the Improvement Area. First, the Community Facilities District has covenanted that, to the maximum extent that it is legally permitted to do so, it will not modify the maximum Special Tax rates where such modification would: (i) prohibit the Community Facilities District from levying the Special Tax within the Improvement Area in any Fiscal Year at such a rate as would generate Special Tax Revenues in such Fiscal Year at least equal to 110% of Annual Debt Service on all Special Tax Refunding Bonds then Outstanding; (ii) discontinue or cause the discontinuance of such levy; or (iii) permit the prepayment of the Special Tax except as permitted pursuant to the Rate and Method (as such term is defined under the caption “—Rate and Method of Apportionment of Special Taxes”). Second, the Community Facilities District has covenanted that in the event that any initiative is adopted by the qualified electors in the Improvement Area which purports to reduce the minimum or the maximum Special Tax below the levels specified in the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with such covenants. See the caption “SPECIAL RISK FACTORS—California Constitution Article XIIIC and Article XIIIID.”

Although the Special Taxes constitute liens on taxable parcels within the Improvement Area, such taxes do not constitute a personal indebtedness of the owners of such property within the Community Facilities District. Moreover, other liens for taxes and assessments already exist on the property located within the Community Facilities District and other such liens could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners therein. See Table 11 under the caption “THE COMMUNITY FACILITIES DISTRICT—The Improvement Area—Direct and Overlapping Debt” for a description of the direct and overlapping tax and assessment debt levied within the Improvement Area. See also the captions “SPECIAL RISK FACTORS—Direct and Overlapping Debt” and “SPECIAL RISK FACTORS—Cumulative Burden of Parity Taxes and Special Assessments.” There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described under the caption “SPECIAL RISK FACTORS—The Special Taxes are Not Personal Obligations of the Property Owners.”

Under the terms of the Special Tax Refunding Bonds Fiscal Agent Agreement, all Special Tax Revenues received by the Community Facilities District or by the City on behalf of the Community Facilities District are to be immediately deposited upon receipt in the Special Tax Fund established and maintained by
the Special Tax Refunding Bonds Fiscal Agent Agreement. Special Tax Revenues (with the exception of Special Tax Revenues representing Prepayments) are to be applied by the Fiscal Agent under the Special Tax Refunding Bonds Fiscal Agent Agreement in the following order of priority:

**First**, to the Administrative Expense Fund an amount equal to the Administrative Expense Requirement for such Fiscal Year;

**Second**, after making the deposit required pursuant to the first order of priority above, the amount representing past due installments of principal, interest and premium on the Special Tax Refunding Bonds (including any interest on unpaid installments of principal, interest and premium), if any, resulting from the delinquency in the payment of such Special Taxes to the Bond Fund;

**Third**, no later than ten Business Days prior to each Interest Payment Date, after making the deposits required pursuant to the first two orders of priority above, to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund such that the amount in the Bond Fund equals the principal, premium, if any, and interest due on the Special Tax Refunding Bonds on the next Interest Payment Date;

**Fourth**, no later than ten Business Days prior to each Interest Payment Date, after making the deposits required pursuant to the first three orders of priority above, to the Trustee for deposit in the Series B Reserve Fund that amount, if any, necessary to replenish the amount on deposit in the Series B Reserve Fund to the Series B Reserve Requirement;

**Fifth**, no later than ten Business Days prior to each Interest Payment Date, after making the deposits and transfer required pursuant to the first four orders of priority above, to the Trustee for deposit in the Series C Reserve Fund that amount, if any, necessary to replenish the amount on deposit in the Series C Reserve Fund to the Series C Reserve Fund Requirement;

**Sixth**, on September 2 of each year (or as soon thereafter as funds become available) after making the deposits and transfers required under the first five orders of priority above, upon receipt of written instructions from an Authorized Officer on or before the preceding June 30, to the Trustee the amount specified in such written instructions necessary for the payment of any rebate amount due and owing to the United States of America by the Authority on the Bonds;

**Seventh**, on September 2 of each year (or as soon thereafter as funds become available) after making the deposits and transfers required under the first six orders of priority above, upon receipt of an Officer’s Certificate executed by an Authorized Officer of the Community Facilities District, to the Administrative Expense Fund the amount specified in such Officer’s Certificate necessary for payment of the estimated Administrative Expenses incurred by the Community Facilities District in the preceding Fiscal Year in excess of the Administrative Expense Requirement; and

**Eighth**, after September 2 of each year, after making the deposits and transfers made pursuant to the first seven orders of priority above, monies then on deposit in the Special Tax Fund will remain therein and will be subsequently deposited or transferred pursuant to the provisions of the first seven orders of priority above.

Special Tax Revenues constituting Prepayments will be transferred to the Fiscal Agent as provided in the Special Tax Refunding Bonds Fiscal Agent Agreement and used to redeem the respective Special Tax Refunding Bonds. See the captions “—Payment of the Special Tax Refunding Bonds—Mandatory Redemption of Special Tax Refunding Bonds” and “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments.”
Rate and Method of Apportionment of Special Taxes

The Community Facilities District has adopted a First Amended and Restated Rate and Method of Apportionment of the Special Tax (the “Rate and Method”) for the Improvement Area following public hearings and an election conducted pursuant to the provisions of the CFD Act. The Rate and Method for the Improvement Area is set forth in full in Appendix F hereto.

Pursuant to the Rate and Method for the Improvement Area, the City Council will levy the Special Tax as follows until the amount of the levy equals the Special Tax Requirement (as such term is defined in the Rate and Method) for the Improvement Area: First, the Special Tax will be levied proportionately on each Assessor’s Parcel of Developed Property at up to 100% of the applicable Special Tax to satisfy the Special Tax Requirement; and second, if additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax will be levied proportionately on each Assessor’s Parcel of Undeveloped Property (as such term is defined in the Rate and Method) at up to 100% of the applicable Special Tax.

Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within the Improvement Area by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults.

See Appendix F for further information with respect to the apportionment of Special Taxes.

No Teeter Plan

The Board of Supervisors of the County of San Diego has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 et seq. of the Revenue and Taxation Code of the State. As a result of the implementation of the Teeter Plan by the County of San Diego, the County of San Diego apportions secured property taxes and assessments on an accrual basis when due (irrespective of actual collections) to participating local political subdivisions for which the County of San Diego acts as the levying or collecting agency. The Community Facilities District does not participate in the Teeter Plan. As a result, the collection of Special Taxes is subject to delinquency risk. As further described under the caption “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” and “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure Delays,” delinquencies in the payment of Special Taxes could have an adverse effect on the Community Facilities District’s ability to make timely debt service payments on the Special Tax Refunding Bonds, which secure the Bonds. Conversely, the Community Facilities District will benefit from Special Taxes generated by penalties and interest charged on delinquent Special Taxes.

See the caption “THE COMMUNITY FACILITIES DISTRICT—The Improvement Area—Delinquency History” for historical delinquency information with respect to the Improvement Area.

Covenant to Foreclose

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

Pursuant to Section 53356.1 of the CFD Act, in the event of any delinquency in the payment of any Special Tax or receipt by a Community Facilities District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the Community Facilities District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In
such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the CFD Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the Community Facilities District has covenanted for the benefit of the Authority, as owner of the Special Tax Refunding Bonds, that it will: (i) commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than $5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; (ii) 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 for such Fiscal Year; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding clauses (i) and (ii) above, 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 for a period of five years or more or in an amount in excess of $10,000 so long as: (1) the amounts in the Series B Reserve Fund and the Series C Reserve Fund are at least equal to the Series B Reserve Requirement and the Series C Reserve Requirement, respectively; and (2) with respect to the Special Tax Refunding Bonds, the Community Facilities District, acting on behalf of the Improvement Area, is not in default in the payment of the principal of or interest on the Special Tax Refunding Bonds. See Appendix B—“SUMMARY OF CERTAIN PROVISIONS OF BOND DOCUMENTS.”

If foreclosure is necessary and other funds (including amounts in the Series B Reserve Fund and/or the Series C Reserve Fund) have been exhausted, debt service payments on the applicable series of Special Tax Refunding Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the Community Facilities District. See the caption “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure Delays.” Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See the caption “SPECIAL RISK FACTORS—Land Values.” Although the CFD Act authorizes the Community Facilities District to cause such an action to be commenced and diligently pursued to completion, the CFD Act does not impose on the Community Facilities District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. However, the City does have the ability to use the foreclosure judgment to purchase property by credit bid at a foreclosure sale, in which case the City would have no obligation to pay such credit bid for 24 months. The CFD Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for ad valorem taxes.

Priority of Lien

The Special Taxes levied within the Improvement Area, and each installment thereof and any interest and penalties thereon, constitute a lien against each of the respective parcels within the Improvement Area until the same are paid. There are liens for special taxes and the recurring lien for general property taxes on parcels within the Improvement Area. See the captions “THE COMMUNITY FACILITIES DISTRICT” and “SPECIAL RISK FACTORS—Direct and Overlapping Debt.”

No Obligation of the City Upon Delinquency

The City is under no obligation to transfer any funds of the City into the Redemption Fund or the Special Tax Fund for the payment of the principal of or interest on the Special Tax Refunding Bonds if a delinquency occurs in the payment of any Special Taxes. See the caption “—Covenant to Foreclose” for a discussion of the Community Facilities District’s obligation to foreclose Special Tax liens upon delinquencies.
Prepayment of Special Taxes

A property owner may prepay its Special Taxes and thereby cause a partial redemption of the Special Tax Refunding Bonds and the Bonds. See the caption “THE BONDS—Redemption—Mandatory Redemption from Redemption of Special Tax Refunding Bonds.” As described under the caption “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments,” developers in the Improvement Area have been prepaying Special Taxes at the closing of individual home sales or phases to end users as part of their respective marketing programs. The Series C Bonds have been sized based on the estimated prepayments of Special Taxes for a portion of the residential units which have not yet been sold. None of the Community Facilities District, the Authority, the City or the Underwriter makes any assurances regarding the timing, amount or continuation of the prepayments by the current developers in the Improvement Area.

THE AUTHORITY

The San Marcos Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement dated December 14, 1993, as subsequently amended and restated by an Amended and Restated Joint Exercise of Powers Agreement, dated as of January 10, 2012, each by and between the City and the FPD. The Authority was created for the purpose of financing or refinancing of public capital improvements for, and working capital requirements of, the City, the FPD or any other local agency, including community facilities districts created by the City or the FPD, through the construction and/or acquisition by the Authority of such public capital improvements and/or the purchase by the Authority of bonds of the City, the FPD or any other local agency pursuant to bond purchase agreements and/or the lending of funds by the Authority to the City, the FPD or any other local agency. The Authority is governed by a board of five directors, which is composed of the members of the City Council. The Executive Director of the Authority is the City Manager of the City. The Authority is specifically granted all of the powers specified in the Bond Law, including but not limited to the power to issue bonds and to sell such bonds to public or private purchasers at public or by negotiated sale. The Authority is entitled to exercise powers common to its members and necessary to accomplish the purpose for which it was formed. The Authority has no independent staff, and consequently it will be completely dependent upon the officers and employees of the City to administer its program.


THE CITY

The City is located approximately 24 miles north of downtown San Diego and 90 miles south of Los Angeles, in the northern coastal/inland region of San Diego County. The City is a charter city, incorporated in 1963 and chartered on July 4, 1994. For more information regarding the City, see Appendix A—“INFORMATION REGARDING THE CITY OF SAN MARCOS.”

THE COMMUNITY FACILITIES DISTRICT

General

The Community Facilities District was formed on November 11, 2002 for the purpose of financing a portion of certain public improvements. The Community Facilities District encompasses portions of the University Commons Specific Plan (San Marcos Ordinance 2001-1127) and is located on the City’s western
boundary with the City of Carlsbad. The Community Facilities District consists of two improvement areas, the Improvement Area and Improvement Area No. 2. The special taxes levied within Improvement Area No. 2 are not pledged to the payment of the Prior Special Tax Bonds and will not be pledged to payment of the Bonds or the Special Tax Refunding Bonds. The Prior Special Tax Bonds are the only outstanding bonds of the Improvement Area.

The Improvement Area

**General.** The Improvement Area, which consists of 306 gross acres generally located in the center of the Community Facilities District, is partially built out. Development plans for the Improvement Area consist of 401 single family homes, 616 condominiums, 144 affordable housing units, 6.00 acres of light industrial uses and 1.60 acres of medical and office uses. Properties classified as “Affordable Property” pursuant to the Rate and Method are exempt from the levy of the Special Taxes. Additionally, as described further below, certain of the developers within the Improvement Area have been prepaying Special Taxes on sold units. As of May 15, 2012, developers or owners have prepaid Special Taxes on 94 units within the Improvement Area. Accordingly, 596 completed and sold units of residential property are still subject to the Special Tax levy. A projected 276 units of residential property subject to the Special Taxes remain to be completed and sold and a projected 51 units of residential property subject to the Special Taxes are completed but remain to be sold. The developers of these units have notified the City that their current plans are to prepay the Special Taxes associated with a portion of such property, but they are not obligated to do so. The Series C Bonds will be called first from the proceeds of the Special Tax Refunding Bonds redeemed from Special Tax prepayments as set forth under the caption “THE BONDS—Redemption—Mandatory Redemption from Redemption of Special Tax Refunding Bonds.” See the caption “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments” for a discussion of the risks associated with prepayment of Special Taxes.

The Improvement Area consists of the following 11 Planning Areas:

**Planning Area 1.** Planning Area 1 was acquired by Lo Land Assets on June 29, 2005. In May 2009, ownership was transferred to Estancia Coastal LLC. Currently, Cornerstone Communities is developing the property in conjunction with Estancia Coastal LLC into 293 multi-family condominium units, with 18 units designated as affordable housing, for a total of 275 taxable residential units. The project consists of two products: Laurels, a 98-unit duplex condominium complex, and Magnolia, a 195-unit attached condominium complex. As of May 18, 2012, building permits for 75 taxable units have been issued, 35 of which have been sold. Cornerstone Communities has been prepaying its Special Tax obligation with respect to Magnolia in blocks as phases of the development are sold. As of May 15, 2012, Cornerstone has prepaid Special Taxes on 25 of the 275 taxable units. Laurels’ 98 condominium units range in size from 1,650 square feet to 1,775 square feet and Magnolia’s 195 condominium units range in size from 1,173 square feet to 1,649 square feet. Cornerstone Communities has indicated to the City that it anticipates that it will continue to prepay Special Taxes on units at Magnolia for the foreseeable future. However, the City makes no assurance regarding the ability or willingness of Cornerstone Communities to continue such prepayments. Cornerstone Communities has indicated to the City that it does not currently plan to prepay Special Taxes with respect to Laurels, but that such plans are subject to change based on future market conditions.

**Planning Area 3.** Planning Area 3 was developed by Shea Homes Limited Partnership into 156 multi-family condominium units. All 156 units have been constructed and sold to individual property owners.

**Planning Area 4.** Planning Area 4 was acquired by the San Marcos Medical Center LLC on May 30, 2007. The property was initially expected to be developed with an industrial land use; however, a medical office has been approved. Grading plans were submitted for plan check but have since expired by limitation. The project is currently on hold until there is a recovery in the market for medical office space.
Planning Area 5a. Planning Area 5a was developed into 114 multi-family affordable housing units by UC Housing Partners LP. All units were completed and sold by November 2006.

Planning Area 5b. Planning Area 5b was developed into a 140,000 square foot distribution center by Hunter Industries Inc. Construction of the Leadership in Energy and Environment Design-certified building was completed in June 2008.

Planning Area 6c. Planning Area 6c was developed by Shea Homes Limited Partnership into 57 multi-family condominium units. All 57 units have been constructed and sold.

Planning Area 7. Planning Area 7 was acquired on April 16, 2010 by Ecco Communities OCR LLC, a subsidiary of Colrich Inc. The property is currently expected to be developed into 140 multi-family condominium units. It is anticipated that 12 of the units will be designated as moderate-income affordable housing, for a total of 128 taxable units. As of May 18, 2012, building permits for 52 taxable units have been issued, 33 of which have been sold. Colrich Inc. has been prepaying its Special Tax obligation in blocks as phases of the development are sold. As of May 15, 2012, Colrich Inc. had prepaid Special Taxes on 35 of the 128 taxable units.

Planning Area 8. Planning Area 8 was developed by Centex Homes into 52 single-family units. All 52 units have been constructed and sold to individual homeowners.

Planning Area 9. Planning Area 9 was developed by Centex Homes into 96 single-family units. All 96 units have been constructed and sold to individual homeowners.

Planning Area 11. Planning Area 11 was developed by Centex Homes into 97 single-family units. All 97 units have been constructed and sold to individual homeowners.

Planning Area 12a. Planning Area 12a is being developed by Brookfield Old Creek LLC and has approved final maps for 156 single-family units. Building permits for all units have been issued. Of the 156 units with building permits issued, 4 units are finished model homes. As of May 18, 2012, 137 units have been sold to individual homeowners. For homes sold since December 2010, Brookfield Old Creek LLC has been prepaying its Special Tax obligation upon the close of escrow of each home. As of May 15, 2012, Brookfield Old Creek LLC had prepaid Special Taxes with respect to 34 units.

Top Property Owners. Table 7 below set forth the property owner concentration for the Improvement Area.

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### TABLE 7
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
PROPERTY OWNER CONCENTRATION BASED ON PRELIMINARY FISCAL YEAR 2012-13
ASSESSOR’S ROLL

<table>
<thead>
<tr>
<th>Owner Name</th>
<th>Number of Units</th>
<th>Estimated Fiscal Year 2012-13 Special Tax</th>
<th>Percent of Estimated Fiscal Year 2012-13 Special Tax</th>
<th>Preliminary Fiscal Year 2012-13 Maximum Special Tax</th>
<th>Percent of Preliminary Fiscal Year 2012-13 Maximum Special Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Homeowners</td>
<td>596</td>
<td>$1,181,183</td>
<td>86.65%</td>
<td>$1,181,183</td>
<td>66.88%</td>
</tr>
<tr>
<td>Estancia Coastal LLC(1)</td>
<td>220</td>
<td>55,184</td>
<td>4.05</td>
<td>337,260</td>
<td>19.10</td>
</tr>
<tr>
<td>Ecco Communities OCR LLC(2)</td>
<td>93</td>
<td>35,380</td>
<td>2.60</td>
<td>142,569</td>
<td>8.07</td>
</tr>
<tr>
<td>Hunter Industries(3)</td>
<td>N/A</td>
<td>56,328</td>
<td>4.13</td>
<td>56,328</td>
<td>3.19</td>
</tr>
<tr>
<td>Brookfield Old Creek LLC(4)</td>
<td>14</td>
<td>33,768</td>
<td>2.48</td>
<td>33,768</td>
<td>1.91</td>
</tr>
<tr>
<td>San Marcos Medical Center LLC(5)</td>
<td>N/A</td>
<td>1,202</td>
<td>0.09</td>
<td>15,021</td>
<td>0.85</td>
</tr>
<tr>
<td>TOTAL(6)</td>
<td>923</td>
<td>$1,363,045</td>
<td>100.00%</td>
<td>$1,766,129</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

(1) See the caption “—General—Planning Area 1.”
(2) See the caption “—General—Planning Area 7.”
(3) Consists of Non-Residential Property. See the caption “—General—Planning Area 5b.”
(4) See the caption “—General—Planning Area 12a.”
(5) Consists of Non-Residential Property. See the caption “—General—Planning Area 4.”
(6) Includes two non-residential parcels.
Source: David Taussig & Associates, Inc.

**Estimated and Maximum Special Tax Rates.** Table 8 below sets forth the projected estimated and maximum Special Tax rates for Fiscal Year 2012-13 for Developed Property and Undeveloped Property within the Improvement Area.

### TABLE 8
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
FISCAL YEAR 2012-13 ESTIMATED AND MAXIMUM SPECIAL TAX RATES

<table>
<thead>
<tr>
<th>Tax Class</th>
<th>Description</th>
<th>Estimated Special Tax(1)</th>
<th>Maximum Special Tax</th>
<th>Estimated As a Percentage Of Maximum</th>
<th>Estimated Special Tax(3)</th>
<th>Maximum Special Tax</th>
<th>Estimated As a Percentage Of Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Detached Residential: &gt; 5,750 SF Lots</td>
<td>$ N/A</td>
<td>N/A</td>
<td>N/A%</td>
<td>$ N/A</td>
<td>N/A</td>
<td>N/A%</td>
</tr>
<tr>
<td>2</td>
<td>Detached Residential: 5,250 - 5,750 SF Lots</td>
<td>2,412.00</td>
<td>2,412.00</td>
<td>100.00</td>
<td>2,412.00</td>
<td>2,412.00</td>
<td>100.00</td>
</tr>
<tr>
<td>3</td>
<td>Detached Residential: &lt; 5,250 SF Lots</td>
<td>2,123.00</td>
<td>2,123.00</td>
<td>100.00</td>
<td>2,123.00</td>
<td>2,123.00</td>
<td>100.00</td>
</tr>
<tr>
<td>4</td>
<td>Attached Residential Condos(2)</td>
<td>1,533.00</td>
<td>1,533.00</td>
<td>100.00</td>
<td>1,533.00</td>
<td>1,533.00</td>
<td>100.00</td>
</tr>
<tr>
<td>5</td>
<td>Attached Residential Apartments(2)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A%</td>
</tr>
<tr>
<td>6</td>
<td>Non-Residential Acreage</td>
<td>9,388.00</td>
<td>9,388.00</td>
<td>100.00</td>
<td>750.91</td>
<td>9,388.00</td>
<td>8.00</td>
</tr>
</tbody>
</table>

(1) Based on building permits issued as of May 18, 2012, and assuming no further developments or prepayments, the Fiscal Year 2013-14 Special Tax is projected to be approximately 2.77% lower on Developed Property, and no Special Tax levy is projected to be levied on Undeveloped Property.
(2) Excludes Affordable Units.
Source: David Taussig & Associates, Inc.
**Delinquency History.** Table 9 summarizes the historical delinquencies for the Improvement Area from Fiscal Year 2007-08 to Fiscal Year 2011-12.

**TABLE 9**
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
HISTORY OF DELINQUENCY(1)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount Levied</th>
<th>Parcels Levied</th>
<th>Parcels Delinquent</th>
<th>Amount Delinquent</th>
<th>Percent Delinquent</th>
<th>Delinquencies as of May 2, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Parcels</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Delinquent</td>
</tr>
<tr>
<td>2007-08</td>
<td>$1,541,210</td>
<td>618</td>
<td>27</td>
<td>$43,625</td>
<td>2.83%</td>
<td>0</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,552,054</td>
<td>618</td>
<td>26</td>
<td>82,148</td>
<td>5.29</td>
<td>0</td>
</tr>
<tr>
<td>2009-10</td>
<td>1,685,565</td>
<td>617</td>
<td>17</td>
<td>24,808</td>
<td>1.47</td>
<td>0</td>
</tr>
<tr>
<td>2010-11</td>
<td>1,533,165</td>
<td>617</td>
<td>9</td>
<td>13,701</td>
<td>0.89</td>
<td>0</td>
</tr>
<tr>
<td>2011-12</td>
<td>1,577,863</td>
<td>622</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>22</td>
</tr>
</tbody>
</table>

(1) The original Special Tax levy for the Improvement Area was $1,612,648 on 635 parcels. The levy amount and the number of levied parcels have been reduced as a result of Special Tax prepayments.

(2) As of June 30 of each Fiscal Year shown.

Source: City of San Marcos.
Maximum Special Tax by Development Status. The Improvement Area is partially built out. Table 10 below sets forth the development status and the maximum Special Tax levy by development status of the Improvement Area, excluding 94 units for which the Special Tax has been prepaid.

<table>
<thead>
<tr>
<th>Development Status(4)</th>
<th>Number of Units(2)</th>
<th>Taxable Acres</th>
<th>Preliminary Fiscal Year 2012-13 Net Assessed Value</th>
<th>Fiscal Year 2012-13 Maximum Special Taxes(3)</th>
<th>Fiscal Year 2012-13 Estimated Special Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Developed Property(4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detached Residential Property</td>
<td>367</td>
<td>-</td>
<td>$202,724,240</td>
<td>$842,432</td>
<td>$842,432</td>
</tr>
<tr>
<td>Attached Residential Property</td>
<td>280</td>
<td>-</td>
<td>72,360,578</td>
<td>429,240</td>
<td>429,240</td>
</tr>
<tr>
<td>Non-Residential Property</td>
<td>N/A</td>
<td>6.00</td>
<td>24,238,037</td>
<td>56,328</td>
<td>56,328</td>
</tr>
<tr>
<td>Subtotal</td>
<td>647</td>
<td>6.00</td>
<td>$299,322,855</td>
<td>$1,328,000</td>
<td>$1,328,000</td>
</tr>
<tr>
<td>Taxable Undeveloped Property(4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detached Residential Property</td>
<td>-</td>
<td>-</td>
<td>$</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Attached Residential Property</td>
<td>276</td>
<td>-</td>
<td>21,274,148</td>
<td>423,108</td>
<td>33,843</td>
</tr>
<tr>
<td>Non-Residential Property</td>
<td>N/A</td>
<td>1.60</td>
<td>2,239,995</td>
<td>15,021</td>
<td>1,202</td>
</tr>
<tr>
<td>Subtotal</td>
<td>276</td>
<td>1.60</td>
<td>$23,514,143</td>
<td>$438,129</td>
<td>$35,045</td>
</tr>
<tr>
<td>Total Taxable Property(5)</td>
<td>923</td>
<td>7.60</td>
<td>$322,836,998</td>
<td>$1,766,129</td>
<td>$1,363,045</td>
</tr>
</tbody>
</table>

(1) As of March 1, 2012.
(2) Excludes Affordable Units and 94 units for which the Special Tax has been prepaid.
(3) Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within the Improvement Area by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults.
(4) Source data provided by City of San Marcos.
(5) Excludes 94 units for which the Special Tax has been prepaid. Based on building permits issued as of May 18, 2012, and assuming no further developments or prepayments, the Fiscal Year 2013-14 Special Tax is projected to be approximately 2.77% lower on Developed Property, and no Special Tax levy is projected to be levied on Undeveloped Property.

Source: David Taussig & Associates, Inc.

Direct and Overlapping Debt. Set forth below is the statement of direct and overlapping debt (the “Debt Report”) for the Improvement Area, reflecting the issuance of $18,060,000 aggregate principal amount of Special Tax Refunding Bonds. The table indicates that the assessed value of the property within the Improvement Area is $322,836,998 for Fiscal Year 2011-12. The Debt Report has been derived from data assembled and reported to the Authority by David Taussig & Associates, Inc. None of the Authority, the Community Facilities District, the City nor the Underwriter has independently verified the information in the Debt Report and such parties do not guarantee its completeness or accuracy.

The property within the Improvement Area is subject to existing taxes and assessments which secure debt. The estimated portion of such debt allocable to the Improvement Area is $6,178,439. The assessed value-to-lien ratio for the Improvement Area as a whole, calculated by dividing the Fiscal Year 2011-12 assessed value by the total principal amount of the Special Tax Refunding Bonds and outstanding overlapping debt, is approximately 13.32 to 1. The value-to-lien ratio of individual parcels will vary from this average.
### TABLE 11
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
ESTIMATED FISCAL YEAR 2011-12 OVERALL DIRECT AND OVERLAPPING DEBT
(BASED ON FISCAL YEAR 2012-13 PRELIMINARY ASSESSOR’S ROLL VALUES)

<table>
<thead>
<tr>
<th>Overlapping Debt(1)</th>
<th>Total Levy(2)</th>
<th>Estimated Levy Applicable To Improvement Area</th>
<th>% of Levy Applicable To Improvement Area</th>
<th>Total Outstanding Overlapping Debt</th>
<th>Estimated Outstanding Overlapping Debt Applicable To Improvement Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Water District</td>
<td>$94,810,471</td>
<td>$11,999</td>
<td>0.013%</td>
<td>$ 196,545,000</td>
<td>$ 24,874</td>
</tr>
<tr>
<td>Palomar Community College District Prop M 2006A</td>
<td>8,753,707</td>
<td>31,103</td>
<td>0.355%</td>
<td>147,530,000</td>
<td>524,188</td>
</tr>
<tr>
<td>Palomar Community College District Prop M 2006B</td>
<td>3,914,386</td>
<td>13,783</td>
<td>0.352%</td>
<td>180,453,941</td>
<td>635,420</td>
</tr>
<tr>
<td>San Marcos Unified School District SFID 2004-1</td>
<td>1,962,487</td>
<td>46,573</td>
<td>2.373%</td>
<td>16,976,408</td>
<td>402,874</td>
</tr>
<tr>
<td>San Marcos Unified School District Prop K</td>
<td>6,304,139</td>
<td>142,702</td>
<td>2.264%</td>
<td>142,819,902</td>
<td>3,232,908</td>
</tr>
<tr>
<td>San Marcos Unified School District Series 2010B(3)</td>
<td>0</td>
<td>0</td>
<td>2.264%</td>
<td>60,000,000</td>
<td>1,358,176</td>
</tr>
<tr>
<td>Total Overlapping Debt</td>
<td></td>
<td></td>
<td></td>
<td>6,178,439</td>
<td></td>
</tr>
<tr>
<td>CFD 2002-01 Bonded Indebtedness</td>
<td></td>
<td></td>
<td></td>
<td>18,060,000</td>
<td></td>
</tr>
<tr>
<td>Estimated Share of Direct and Overlapping Debt</td>
<td></td>
<td></td>
<td></td>
<td>24,238,439</td>
<td></td>
</tr>
<tr>
<td>CFD 2002-01 Preliminary Fiscal Year 2012-13 Assessed Value</td>
<td></td>
<td></td>
<td></td>
<td>322,836,998</td>
<td>13.32</td>
</tr>
</tbody>
</table>

(1) Figures obtained from issuing agency as of most recent debt service payment date.

(2) Levy for Palomar Community College District Prop M 2006A and 2006B, San Marcos Unified School District SFID 2004-1 and San Marcos Unified School District Prop K were estimated by multiplying the Fiscal Year 2011-12 assessed value of parcels subject to the Special Taxes by the applicable overlapping debt tax rate. Assessed valuation and tax rates provided by County of San Diego Auditor-Controller Property Tax Services.

(3) Issued on May 8, 2012. Percentage of levy applicable to the Improvement Area has been allocated based on San Marcos Unified School District Prop K bond allocation.

Source: David Taussig & Associates, Inc.

Table 12 below reflects the direct and overlapping debt for the Improvement Area by development status. As shown below, approximately 91% of such debt is levied upon property within the Improvement Area which has been developed and sold.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
### TABLE 12
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS) IMPROVEMENT AREA NO. 1 ESTIMATED FISCAL YEAR 2011-12 DIRECT AND OVERLAPPING DEBT BY DEVELOPMENT STATUS (BASED ON FISCAL YEAR 2012-13 PRELIMINARY ASSESSOR’S ROLL VALUES)

<table>
<thead>
<tr>
<th>Development Status</th>
<th>Number of Units</th>
<th>CFD 2002-01</th>
<th>MWD Community College</th>
<th>SMUSD</th>
<th>Total</th>
<th>Preliminary Fiscal Year 2012-13 Assessed Value</th>
<th>Value to Lien Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Sold</td>
<td>597</td>
<td>$16,396,711</td>
<td>$22,436</td>
<td>$1,045,834</td>
<td>$4,503,903</td>
<td>$21,968,884</td>
<td>$292,957,681</td>
</tr>
<tr>
<td>Developed Unsold</td>
<td>51</td>
<td>1,198,957</td>
<td>495</td>
<td>23,060</td>
<td>99,317</td>
<td>1,321,828</td>
<td>6,365,174</td>
</tr>
<tr>
<td>Undeveloped</td>
<td>277</td>
<td>464,332</td>
<td>1,944</td>
<td>90,714</td>
<td>390,738</td>
<td>947,727</td>
<td>23,514,143</td>
</tr>
<tr>
<td>Total</td>
<td>925</td>
<td>$18,060,000</td>
<td>$24,874</td>
<td>$1,159,607</td>
<td>$4,993,957</td>
<td>$24,238,439</td>
<td>$322,836,998</td>
</tr>
</tbody>
</table>

(1) As of March 1, 2012.
(2) Based on projected Fiscal Year 2012-13 Special Tax levy.
(3) Figures obtained from issuing agency as of most recent debt service payment date. Also includes San Marcos Unified School District Series 2010B bonds issued on May 8, 2012.
(4) Includes one non-residential developed parcel and one non-residential undeveloped parcel.
(5) Totals may not add due to rounding.
Source: David Taussig & Associates, Inc.

**Estimated Average Effective Tax Rate.** The Special Tax Consultant has calculated that the total effective tax rate within the Improvement Area will be approximately 1.61% for Special Tax Classification 2 (Detached Residential Property between 5,250 and 5,750 square feet), 1.64% for Special Tax Classification 3 (Detached Residential Property less than 5,250 square feet) and 1.88% for Special Tax Classification 4 (Condominiums), each of which represents an average effective tax rate for property within the Improvement Area, as shown in Tables 13, 14 and 15 below. The estimated tax rates and amounts presented below are based on currently available information. The actual amounts charged may vary and may increase or decrease in future years.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
### TABLE 13
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
PROJECTED AVERAGE EFFECTIVE TAX RATE (FISCAL YEAR 2012-13)
SPECIAL TAX CLASSIFICATION 2

<table>
<thead>
<tr>
<th>Preliminary Fiscal Year 2012-13 Average Assessed Value</th>
<th>$ 599,522</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal Year 2011-12 Ad Valorem Property Taxes</strong></td>
<td></td>
</tr>
<tr>
<td>Base Property Tax Rate</td>
<td>1.00000%</td>
</tr>
<tr>
<td>Metropolitan Water District</td>
<td>0.00370</td>
</tr>
<tr>
<td>Palomar Community College District 2006A</td>
<td>0.00959</td>
</tr>
<tr>
<td>Palomar Community College District 2006B</td>
<td>0.00425</td>
</tr>
<tr>
<td>San Marcos Unified School District SFID 2004-1</td>
<td>0.01436</td>
</tr>
<tr>
<td>San Marcos Unified School District Prop K 11/02/10 Series 2010A</td>
<td>0.04400</td>
</tr>
<tr>
<td><strong>Subtotal Ad Valorem Property Tax Rate/Taxes</strong></td>
<td>1.07590%</td>
</tr>
<tr>
<td></td>
<td>$ 6,450.25</td>
</tr>
<tr>
<td><strong>Fiscal Year 2011-12 Special Taxes, Assessments, and Charges</strong></td>
<td></td>
</tr>
<tr>
<td>County Mosquito/Rat Control</td>
<td>-- $ 5.86</td>
</tr>
<tr>
<td>Mosquito/Disease Center</td>
<td>-- 2.28</td>
</tr>
<tr>
<td>MWD Water Standby Charge</td>
<td>-- 11.50</td>
</tr>
<tr>
<td>CWA Water Availability</td>
<td>-- 10.00</td>
</tr>
<tr>
<td>San Marcos CFD 98-01 IA 1</td>
<td>-- 153.66</td>
</tr>
<tr>
<td>San Marcos CFD No. 98-02</td>
<td>-- 214.72</td>
</tr>
<tr>
<td>San Marcos CFD No. 98-02, IA F-23</td>
<td>-- 240.94</td>
</tr>
<tr>
<td>San Marcos CFD No. 2001-01</td>
<td>-- 142.04</td>
</tr>
<tr>
<td>San Marcos CFD No. 2002-01 (University Commons) Improvement Area No. 1(1)</td>
<td>-- 2,412.00</td>
</tr>
<tr>
<td><strong>Subtotal Special Taxes, Assessments, and Charges</strong></td>
<td>-- $ 3,193.00</td>
</tr>
<tr>
<td><strong>TOTAL PROPERTY TAXES</strong></td>
<td>-- $ 9,643.25</td>
</tr>
<tr>
<td><strong>TOTAL EFFECTIVE TAX RATE</strong></td>
<td>-- 1.60849%</td>
</tr>
</tbody>
</table>

(1) Reflects the projected Fiscal Year 2012-13 Average Special Tax per unit and the actual Fiscal Year 2012-13 Average Maximum Special Tax per unit. As the Improvement Area continues to develop, the assigned Special Tax rate is expected to drop.

Source: David Taussig & Associates, Inc.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
TABLE 14
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
PROJECTED AVERAGE EFFECTIVE TAX RATE (FISCAL YEAR 2012-13)
SPECIAL TAX CLASSIFICATION 3

<table>
<thead>
<tr>
<th>Preliminary Fiscal Year 2012-13 Average Assessed Value</th>
<th>$ 513,082</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2011-12 Ad Valorem Property Taxes</th>
<th>Rate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Property Tax Rate</td>
<td>1.00000%</td>
<td>$ 5,130.82</td>
</tr>
<tr>
<td>Metropolitan Water District</td>
<td>0.00370</td>
<td>18.98</td>
</tr>
<tr>
<td>Palomar Community College District 2006A</td>
<td>0.00959</td>
<td>49.20</td>
</tr>
<tr>
<td>Palomar Community College District 2006B</td>
<td>0.00425</td>
<td>21.81</td>
</tr>
<tr>
<td>San Marcos Unified School District SFID 2004-1</td>
<td>0.01436</td>
<td>73.68</td>
</tr>
<tr>
<td>San Marcos Unified School District Prop K 11/02/10 Ser 2010A</td>
<td>0.04400</td>
<td>225.76</td>
</tr>
<tr>
<td>Subtotal Ad Valorem Property Tax Rate/Taxes</td>
<td>1.07590%</td>
<td>$ 5,520.25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2011-12 Special Taxes, Assessments, and Charges</th>
<th>Rate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>County Mosquito/Rat Control</td>
<td>--</td>
<td>$ 5.86</td>
</tr>
<tr>
<td>Mosquito/Disease Center</td>
<td>--</td>
<td>2.28</td>
</tr>
<tr>
<td>MWD Water Standby Charge</td>
<td>--</td>
<td>11.50</td>
</tr>
<tr>
<td>CWA Water Availability</td>
<td>--</td>
<td>10.00</td>
</tr>
<tr>
<td>San Marcos CFD 98-01 IA 1</td>
<td>--</td>
<td>153.66</td>
</tr>
<tr>
<td>San Marcos CFD No. 98-02</td>
<td>--</td>
<td>214.72</td>
</tr>
<tr>
<td>San Marcos CFD No. 98-02, IA F-23</td>
<td>--</td>
<td>240.94</td>
</tr>
<tr>
<td>San Marcos CFD No. 2001-01</td>
<td>--</td>
<td>142.04</td>
</tr>
<tr>
<td>San Marcos CFD No. 2002-01 (University Commons) Improvement Area No. 1(1)</td>
<td>--</td>
<td>$ 2,123.00</td>
</tr>
<tr>
<td>Subtotal Special Taxes, Assessments, and Charges</td>
<td>--</td>
<td>$ 2,904.00</td>
</tr>
</tbody>
</table>

TOTAL PROPERTY TAXES                                         | $ 8,424.25 |

TOTAL EFFECTIVE TAX RATE                                     | 1.64189% |

(1) Reflects the projected Fiscal Year 2012-13 Average Special Tax per unit and the actual Fiscal Year 2012-13 Average Maximum Special Tax per unit. As the Improvement Area continues to develop, the assigned Special Tax rate is expected to drop.
Source: David Taussig & Associates, Inc.
TABLE 15
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
IMPROVEMENT AREA NO. 1
PROJECTED AVERAGE EFFECTIVE TAX RATE (FISCAL YEAR 2012-13)
SPECIAL TAX CLASSIFICATION 4

Preliminary Fiscal Year 2012-13 Average Assessed Value $ 287,578

<table>
<thead>
<tr>
<th>Fiscal Year 2011-12 Ad Valorem Property Taxes</th>
<th>Rate</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Property Tax Rate</td>
<td>1.00000%</td>
<td>$ 2,875.78</td>
</tr>
<tr>
<td>Metropolitan Water District</td>
<td>0.00370</td>
<td>10.64</td>
</tr>
<tr>
<td>Palomar Community College District 2006A</td>
<td>0.00959</td>
<td>27.58</td>
</tr>
<tr>
<td>Palomar Community College District 2006B</td>
<td>0.00425</td>
<td>12.22</td>
</tr>
<tr>
<td>San Marcos Unified School District SFID 2004-1</td>
<td>0.01436</td>
<td>41.30</td>
</tr>
<tr>
<td>San Marcos Unified School District Prop K 11/02/10 Ser 2010A</td>
<td>0.04400</td>
<td>126.53</td>
</tr>
<tr>
<td><strong>Subtotal Ad Valorem Property Tax Rate/Taxes</strong></td>
<td><strong>1.07590%</strong></td>
<td><strong>$ 3,094.05</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2011-12 Special Taxes, Assessments, and Charges</th>
<th>Rate</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Mosquito/Rat Control</td>
<td>--</td>
<td>$ 4.10</td>
</tr>
<tr>
<td>Mosquito/Disease Center</td>
<td>--</td>
<td>2.28</td>
</tr>
<tr>
<td>MWD Water Standby Charge</td>
<td>--</td>
<td>11.50</td>
</tr>
<tr>
<td>CWA Water Availability</td>
<td>--</td>
<td>10.00</td>
</tr>
<tr>
<td>San Marcos CFD 98-01 IA 1</td>
<td>--</td>
<td>153.66</td>
</tr>
<tr>
<td>San Marcos CFD No. 98-02</td>
<td>--</td>
<td>214.72</td>
</tr>
<tr>
<td>San Marcos CFD No. 98-02, IA F-23</td>
<td>--</td>
<td>240.94</td>
</tr>
<tr>
<td>San Marcos CFD No. 2001-01</td>
<td>--</td>
<td>142.04</td>
</tr>
<tr>
<td>San Marcos CFD No. 2002-01 (University Commons) Improvement Area No. 1</td>
<td>--</td>
<td>1,533.00</td>
</tr>
<tr>
<td><strong>Subtotal Special Taxes, Assessments, and Charges</strong></td>
<td>--</td>
<td><strong>$ 2,312.24</strong></td>
</tr>
</tbody>
</table>

**TOTAL PROPERTY TAXES** -- $ 5,406.29

**TOTAL EFFECTIVE TAX RATE** -- 1.87994%

(1) Reflects the projected Fiscal Year 2012-13 Average Special Tax per unit and the actual Fiscal Year 2012-13 Average Maximum Special Tax per unit. As the Improvement Area continues to develop, the assigned Special Tax rate is expected to drop.

Source: David Taussig & Associates, Inc.

Estimated Assessed Value-to-Lien Ratios

Table 16 sets forth the number of parcels within various ranges of estimated assessed value-to-lien ratios for the Improvement Area based on the Fiscal Year 2012-13 preliminary assessed valuation and the total outstanding principal amount of the Special Tax Refunding Bonds. As summarized in Table 16, the estimated assessed value-to-lien ratio for all parcels within the Improvement Area No. 1 is approximately 13.32, but the ratios over individual parcels vary widely. The value of the individual parcels is significant because, in the event of a delinquency in payment, the only remedy of the Community Facilities District is to foreclose on the delinquent parcel. A parcel with a lower value-to-lien ratio may be less likely to sell at foreclosure or provide sale proceeds adequate to pay all delinquent Special Tax installments.

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### TABLE 16
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS) IMPROVEMENT AREA NO. 1
SUMMARY OF ESTIMATED ASSESSED VALUE-TO-LIEN BY RATIO
(BASED ON FISCAL YEAR 2012-13 PRELIMINARY ASSESSOR’S ROLL VALUES)

<table>
<thead>
<tr>
<th>Estimated Assessed Value to Lien</th>
<th>Number of Parcels</th>
<th>Estimated Fiscal Year 2012-13 Special Tax</th>
<th>Percentage of Estimated Fiscal Year 2012-13</th>
<th>Fiscal Year 2012-13 Maximum Special Tax</th>
<th>Percentage of Fiscal Year 2012-13 Maximum Special Tax</th>
<th>Allocable Share of Local Obligations (1)</th>
<th>Percentage of Total Local Obligations</th>
<th>Allocable Share of Direct and Overlapping Debt (2)</th>
<th>Preliminary Fiscal Year 2012-13 Assessed Value</th>
<th>Estimated Assessed Value to Debt (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30:1 to 39.99:1</td>
<td>1</td>
<td>$1,202</td>
<td>0.99%</td>
<td>$15,021</td>
<td>0.85%</td>
<td>$15,919</td>
<td>0.09%</td>
<td>$58,592</td>
<td>0.85%</td>
<td>58,592</td>
</tr>
<tr>
<td>20:1 to 29.99:1</td>
<td>201</td>
<td>$80,852</td>
<td>5.93</td>
<td>$362,928</td>
<td>20.55</td>
<td>$1,071,269</td>
<td>5.93</td>
<td>1,919,545</td>
<td>20.55</td>
<td>42,668,037</td>
</tr>
<tr>
<td>10:1 to 19.99:1</td>
<td>656</td>
<td>$1,167,732</td>
<td>85.67</td>
<td>$1,274,921</td>
<td>72.19</td>
<td>15,472,158</td>
<td>85.67</td>
<td>20,643,153</td>
<td>72.19</td>
<td>271,437,782</td>
</tr>
<tr>
<td>5:1 to 9.99:1</td>
<td>8</td>
<td>$14,022</td>
<td>1.03</td>
<td>$14,022</td>
<td>0.79</td>
<td>185,788</td>
<td>1.03</td>
<td>216,768</td>
<td>0.79</td>
<td>216,768</td>
</tr>
<tr>
<td>3:1 to 4.99:1 (4)</td>
<td>42</td>
<td>$73,176</td>
<td>5.37</td>
<td>$73,176</td>
<td>4.14</td>
<td>969,564</td>
<td>5.37</td>
<td>1,042,959</td>
<td>4.14</td>
<td>4,228,800</td>
</tr>
<tr>
<td>Less than 3:1 (4)</td>
<td>17</td>
<td>$26,061</td>
<td>1.91</td>
<td>$26,061</td>
<td>1.48</td>
<td>345,302</td>
<td>1.91</td>
<td>357,423</td>
<td>1.48</td>
<td>636,174</td>
</tr>
<tr>
<td>Total (5)</td>
<td>925</td>
<td>$1,363,045</td>
<td>100.00%</td>
<td>$1,766,129</td>
<td>100.00%</td>
<td>$18,060,000</td>
<td>100.00%</td>
<td>$24,238,439</td>
<td>100.00%</td>
<td>$24,238,439</td>
</tr>
</tbody>
</table>

(1) Calculated by multiplying the Percentage of Estimated Fiscal Year 2012-13 Special Tax by the total Special Tax Refunding Bonds principal amount of $18,060,000.


(3) Calculated by dividing the Preliminary Fiscal Year 2012-13 Assessed Value column by the Allocable Share of Direct and Overlapping Debt column.

(4) Reflects assessed value to lien ratio for developed unsold residential property. The value of the improvements upon these units is not yet reflected on the assessment rolls.

(5) Amounts may not sum due to rounding. Includes two non-residential parcels.

Source: David Taussig & Associates, Inc.
SPECIAL TAXES AND DEBT SERVICE COVERAGE

Table 17 below shows projected maximum Special Taxes on Developed Property net of Administrative Expenses for the Improvement Area and the resulting debt service coverage for the Bonds for Fiscal Year 2012-13. Table 18 below shows projected total maximum Special Taxes net of Administrative Expenses for the Improvement Area and resulting debt service coverage for the Bonds for Fiscal Year 2012-13. The information in the table is based on development status as of March 1, 2012 and Special Tax prepayments through May 15, 2012, and assumes that no additional Special Taxes are prepaid. As described under the caption “THE COMMUNITY FACILITIES DISTRICT—The Improvement Area,” the developers within the Improvement Area have indicated to the City their current plans to prepay a portion of the Special Taxes prior to the sale of such units to end users. See the caption “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments.”

### TABLE 17
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
ESTIMATED DEBT SERVICE COVERAGE FROM NET DEVELOPED SPECIAL TAXES

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Maximum Developed Special Taxes(1)</th>
<th>Administrative Expenses</th>
<th>Net Developed Special Taxes</th>
<th>Series B Bonds</th>
<th>Series C Bonds</th>
<th>Total</th>
<th>Series B Bonds</th>
<th>Total (Series B Bonds and Series C Bonds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>$1,328,000</td>
<td>$80,000</td>
<td>$1,248,000</td>
<td>$976,489</td>
<td>$304,423</td>
<td>$1,280,912</td>
<td>128%</td>
<td>97%</td>
</tr>
</tbody>
</table>

(1) Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within the Improvement Area by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults.

Source: David Taussig & Associates, Inc.

### TABLE 18
COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS)
ESTIMATED OVERALL DEBT SERVICE COVERAGE

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Maximum Special Taxes(1)</th>
<th>Administrative Expenses</th>
<th>Net Special Taxes</th>
<th>Series B</th>
<th>Series C(2)</th>
<th>Total</th>
<th>Series B</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>$1,766,129</td>
<td>$80,000</td>
<td>$1,686,129</td>
<td>$976,489</td>
<td>$304,423</td>
<td>$1,280,912</td>
<td>173%</td>
<td>132%</td>
</tr>
</tbody>
</table>

(1) Pursuant to Government Code § 53321(d), the Special Tax for public facilities levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within the Improvement Area by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults.

(2) As the Improvement Area is fully developed, debt service coverage from maximum Special Tax rate is expected to decline. See the caption “SPECIAL RISK FACTORS—Series C Bonds Risks.”

Source: David Taussig & Associates, Inc.
SPECIAL RISK FACTORS

There are certain risks associated with the purchase of the Bonds and the following information should
be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be
an exhaustive listing of the risks and other considerations which may be relevant to an investment in the
Bonds. In addition, the order in which the following information is presented is not intended to reflect the
relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay
or preclude payment of principal of or interest on the Bonds.

The Bonds are Limited Obligations of the Authority

Funds for the payment of the principal of and the interest on the Bonds are derived from debt service
payments on the Special Tax Refunding Bonds which are derived only from annual payments of Special
Taxes. The amount of annual installments of Special Taxes that are collected could be insufficient to pay
principal of and interest on the Special Tax Refunding Bonds due to non-payment of such Special Taxes levied
or due to insufficient proceeds received from a judicial foreclosure sale of land within the Community
Facilities District following delinquency. The Community Facilities District’s legal obligations with respect to
any delinquent Community Facilities District legal obligations with respect to Special Taxes are limited to the
institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for
which Special Taxes are delinquent. See the caption “SECURITY FOR THE BONDS—Covenant to
Foreclose.” The Bonds cannot be accelerated in the event of any default.

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

The Special Tax Refunding Bonds are Limited Obligations

The obligation of the Community Facilities District, as the issuer of the Special Tax Refunding Bonds,
to advance the amount of delinquencies to the Trustee, as the registered holder of the Special Tax Refunding
Bonds, is strictly limited to funds on deposit in the Series B Reserve Fund and the Series C Reserve Fund, as
applicable, each of which is established and held by the Trustee pursuant to the Indenture. The City has no
liability for any payments due on the Special Tax Refunding Bonds issued by the Community Facilities
District.

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

The Special Taxes are Not Personal Obligations of the Owners

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

Property owners within the Improvement Area are permitted to prepay their Special Taxes at any time. Such prepayments will result in a redemption of Special Tax Refunding Bonds on any March 1 or September 1 following the receipt of the prepayment. The proceeds of the Special Tax Refunding Bonds so redeemed will then be used to make a mandatory redemption of the Bonds. The Bonds will be called from the proceeds of the Special Tax Refunding Bonds redeemed from prepayments as set forth under the caption “THE BONDS—Redemption—Mandatory Redemption from Redemption of Special Tax Refunding Bonds.”

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

No assurance can be given that the individual homeowners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption “—Bankruptcy and Foreclosure Delays” for a discussion of certain limitations on the Community Facilities District’s ability to pursue judicial proceedings with respect to delinquent parcels.

Insufficiency of Special Taxes

Notwithstanding that the maximum Special Taxes that may be levied in the Community Facilities District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation as permitted in the Rate and Method.

In the event of significant delinquencies in the Community Facilities District causing a depletion of all amounts on deposit in the Series B Reserve Fund or the Series C Reserve Fund, there would not be sufficient Special Tax Revenues to pay the full amount of annual debt service on the Series B Bonds or the Series C Bonds, as applicable, until the delinquent Special Taxes were collected through foreclosure action or otherwise. See the caption “—Bankruptcy and Foreclosure Delays” below for a discussion of potential delays in foreclosure actions.

The CFD Act provides that, if any property within the Community Facilities District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the CFD Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the CFD Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the Community Facilities District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.
Risks Related to Homeowners With High Loan to Value Ratios or Negative Equity

There is a concentration of risk in recently developed communities that is not present in the broader housing market due to homeowners with little equity, no equity or negative equity in their homes, a greater use of adjustable rate loans and creative loan structures and a high incidence of similar mortgage loan structures.

Any decline in home values in the Community Facilities District could result in further property owner unwillingness or inability to pay mortgage payments, as well as ad valorem taxes and special taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See the caption “— Bankruptcy and Foreclosure Delays.”

There may be proposals to assist homeowners affected by subprime mortgages. It is possible that laws could be enacted in the future to assist homeowners in default in the payment of mortgages and taxes. It is further possible that federal laws could be enacted that would adversely impact the ability of the Community Facilities District to foreclose on parcels with delinquent Special Taxes. No assurance can be given that any such laws will be enacted, or if enacted will be effective in assisting affected homeowners.

Concentration of Ownership

As shown in Table 7 under the caption “THE COMMUNITY FACILITIES DISTRICT—The Improvement Area—Top Property Owners,” approximately 9% of the estimated Fiscal Year 2012-13 Special Tax levy is on property owned by developers in the Improvement Area. See the caption “THE COMMUNITY FACILITIES DISTRICT.” There may be subsequent transfers of ownership of the property within the Improvement Area. Failure of the owners of property to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Special Tax Refunding Bonds, which could result in the inability of the Authority to make payments of the principal of, and interest on the Bonds when due. Such risk may be greater or its consequence more severe when ownership is concentrated and may be expected to decrease as ownership is diversified through development and sales.

The receipt of the Special Taxes levied on property owned by the developers within the Improvement Area is dependent, to a significant extent, on the willingness and the ability of such developers to pay the Special Taxes levied on such property when due. Failure of the developers, or any successors, to pay the Special Taxes levied on property owned by the developers when due could significantly contribute to a default in payments of the principal of, and interest on, the Series 2012C Bonds, when due.

No assurance can be made that the developers, or their successors, will complete the intended construction and development in the Improvement Area as described in this Official Statement. As a result, no assurance can be given that the developers, and their successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “RISK FACTORS—Bankruptcy and Foreclosure Delays” below, for a discussion of certain limitations on the Community Facilities District’s ability to pursue judicial proceedings with respect to delinquent parcels.

Bankruptcy and Foreclosure Delays

Bankruptcy, insolvency and other laws generally affecting creditors’ rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners’ taxes and the ability of the Community Facilities District to foreclose the lien of delinquent unpaid Special Taxes pursuant to its covenant to pursue judicial foreclosure proceedings set forth in the Special Tax Refunding Bonds Fiscal Agent Agreement (see the caption “SECURITY FOR THE BONDS—Covenant to Foreclose”) 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 foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.
Secondly, the United States Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner and if the court found that any of such landowner had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Although a bankruptcy proceeding would not cause the lien of the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by a bankruptcy court. In addition, the bankruptcy of a property owner could result in a stay of enforcement or other delay in procuring Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes. If enough parcels were involved in bankruptcy proceedings, court delays would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, including the Bonds and the Special Tax Refunding Bonds, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of 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.

**FDIC/Federal Government Interests in Properties**

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

The supremacy clause of the United States Constitution reads as follows: “This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

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

Moreover, unless the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the 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. In *Rust v. Johnson* 597 F.2d 174 (9th Cir. 1979), the United States
Court of Appeal, Ninth Circuit (the “Ninth Circuit”), held that FNMA is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States. For a discussion of risks associated with taxable parcels within the Community Facilities District becoming owned by the federal government, federal government entities or federal government sponsored entities, see the caption “—Insufficiency of Special Taxes.”

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

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the Community Facilities District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent that the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not 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-\textit{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 CFD Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity. The Ninth Circuit issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from CFD Act special taxes.

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 Improvement Area in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Series B Reserve Fund and/or the Series C Reserve Fund and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Series B Bonds and/or the Series C Bonds, as applicable.

**Direct and Overlapping Debt**

Neither the Authority, City nor the Community Facilities District have control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within the
Community Facilities District which may be incurred in the future by other governmental agencies having jurisdiction over all or a portion of the property within the Community Facilities District. Other public agencies may issue additional indebtedness on property within the Community Facilities District at any time. Furthermore, nothing prevents the owners of property within the Community Facilities District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes on a parity with the Special Taxes or assessments which would be subordinate to the Special Taxes. To the extent that such indebtedness is payable from assessments, other special taxes levied pursuant to the CFD Act or taxes, such assessments, special taxes and taxes will be secured by liens on 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. The imposition of such additional indebtedness could reduce the willingness and ability of the property owners within the Community Facilities District to pay the Special Taxes when due. See the caption “—Cumulative Burden of Parity Taxes and Special Assessments.” Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See the caption “—Land Values.”

Disclosures to Future Purchasers

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

The CFD 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 § 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.

Natural Disasters

The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of unseasonable rainfall. The occurrence of seismic activity, fires or flooding in or around the Community Facilities District could result in substantial damage to properties in the Community Facilities District which, in turn, could substantially reduce the value of such properties. As a result of the occurrence of such an event, a substantial portion of the property owners may be unable or unwilling to pay the Special Tax installments when due, and the Series B Reserve Fund or the Series C 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 Tax installments.
Land Values

The value of land within the Community Facilities District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of a Special Tax installment, the Community Facilities District’s only remedy is to commence foreclosure proceedings on such property. Prospective purchasers of the Bonds should not assume that the property within the Community Facilities District could be sold for the assessed value described herein at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. Reductions in property values within the Community Facilities District due to a downturn in the economy or the real estate market, events such as earthquakes, wildfires, droughts or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the liens. Additionally, the value of undeveloped property is inherently less than the value of developed property. Less than 3% of the estimated Fiscal Year 2012-13 Special Tax levy is on property classified as Undeveloped Property. See the caption “—Series C Bonds Risks.”

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the San Diego County Assessor, generally not to exceed an increase of more than 2% per fiscal year as limited by Proposition 13 and as amended by Proposition 8. No assurance can be given that Fiscal Year 2011-12 assessed values reflect market values or that a parcel could actually be sold for its assessed value.

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

Hazardous Substances

A claim with regard to a hazardous substance on a parcel of land subject to any of the Special Taxes can result in a significant potential reduction in the value of the parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is well known, but State laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the Community Facilities District be affected by a hazardous substance, is to reduce the marketability and value by the costs of remediying the condition because the prospective purchase of such a parcel will, upon becoming the owner of such parcel, become obligated to remedy the condition just as the seller of such a parcel is obligated to remedy the condition.

Hazardous substance liabilities may arise in the future with respect to any of the parcels within the Community Facilities District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise from the method of handling such substance. These possibilities could significantly affect the value of a parcel and could result in substantial delays in completing planned development on parcels that are currently undeveloped.
Cumulative Burden of Parity Taxes and Special Assessments

Property within the Community Facilities District is subject to taxes imposed by public agencies that also have jurisdiction over the land within the Community Facilities District. See the caption “THE COMMUNITY FACILITIES DISTRICT.”

The Special Taxes constitute a lien against the parcels of land on which they have been levied. Such lien is on a parity with all special taxes or assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes, regardless of when they are imposed upon the same property.

Neither the City nor the Community Facilities District have control over the ability of other entities to issue indebtedness secured by ad valorem taxes, special taxes or assessments levied on all or a portion of the property within the Community Facilities District. In addition, the owners of the property within the Community Facilities District may, without the consent or knowledge of the City or the Community Facilities District, petition other public agencies to issue public indebtedness secured by ad valorem taxes, special taxes of assessments. The property within the Community Facilities District is subject to a number of overlapping tax and assessment liens, some of which secure outstanding indebtedness. See the caption “THE COMMUNITY FACILITIES DISTRICT.”

Series C Bonds Risks

The Series C Bonds are paid from Revenues on a basis subordinate and junior to the Series B Bonds. Based on the development status of the Improvement Area as of March 1, 2012 and prepayments of Special Taxes through May 15, 2012, less than 3% of the estimated Fiscal Year 2012-13 Special Tax levy is on property classified as Undeveloped Property. See Table 10 under the caption “THE COMMUNITY FACILITIES DISTRICT—The Improvement Area—Maximum Special Tax by Development Status.” There are certain risks associated with Undeveloped Property, including a lower value-to-lien ratio and a higher concentration of ownership, which are not associated with Developed Property.

In addition, in the event of a draw on the Series C Reserve Fund resulting from a shortfall in collection of Special Taxes from Developed Property and/or Undeveloped Property, the Series C Reserve Fund will not be replenished until after making the deposits and transfer required pursuant to the Indenture relating to payment of principal of and interest on the Series B Bonds and replenishment of the Series B Reserve Fund.

The Series C Bonds have been sized to account for estimated prepayments of Special Taxes by the remaining developers in the Improvement Area. See the caption “THE COMMUNITY FACILITIES DISTRICT—The Improvement Area.”

Pursuant to the Indenture, the Series C Bonds will be subject to mandatory prepayment from Special Tax prepayments prior to the Series B Bonds. See the caption “THE BONDS—Redemption—Mandatory Redemption from Redemption of Special Tax Refunding Bonds.” Accordingly, investors should not assume that the Series C Bonds will remain outstanding through maturity. The Community Facilities District makes no assurances regarding the timing or amounts of Special Tax prepayments, if any, by the developers.

Loss of Tax Exemption

As discussed under the caption “CONCLUDING INFORMATION—Tax Matters,” in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority and the Community Facilities District have covenanted in the Indenture and the Special Tax Refunding Bonds Fiscal Agent Agreement, respectively, not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could
become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the Authority, the City or the Community Facilities District in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain Outstanding to maturity or until redeemed under the optional or mandatory redemption provisions of the Indenture.

California Constitution Article XIIIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIIIC and XIID to the State Constitution, which contain, among other things, a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Among other things, Section 3 of Article XIII states that “… the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The CFD 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 CFD 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 CFD 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 XIIIIC 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 Special Taxes if such reduction would interfere with the timely retirement of the Special Tax Refunding Bonds. The provisions of the initiative relating to the exercise of the initiative power have not been interpreted by the courts and no assurance can be given as to the outcome of any such litigation.

It may be possible, however, for voters or the City Council, acting as the legislative body of the Community Facilities District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the Community Facilities District has covenanted that it will not initiate proceedings under the CFD Act to reduce the maximum Special Tax rates on parcels within the Improvement Area to less than an amount equal to 110% of maximum annual debt service on the respective Special Tax Refunding Bonds. The Community Facilities District has further covenanted that, in the event that an initiative is adopted which purports to alter the respective rates and methods of apportionments, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

Articles XIIIC and XIIID were adopted pursuant to measures qualified for the ballot pursuant to the State’s constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995 in the case of Rossi v. Brown, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by State voters or other legislation enacted by the State Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the Community Facilities District, or local districts to increase revenues or to increase appropriations or on the ability of the landowners within the Community Facilities District to complete the remaining proposed development.

**No Acceleration**

There is no provision in the Indenture or Special Tax Refunding Bonds Fiscal Agent Agreement for acceleration of the payment of principal of or interest on the Bonds or the Special Tax Refunding Bonds in the event of default or in the event that interest on the Bonds becomes included in gross income for federal income tax purposes. There is no provision in the CFD Act, the Indenture or the Special Tax Refunding Bonds Fiscal Agent Agreement for the acceleration of the Special Taxes in the event of a payment default by an owner of a parcel within the Community Facilities District or otherwise, or upon any adverse change in the tax status of interest on the Bonds.

**Limited Secondary Market**

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

**Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds, the Indenture and the Special Tax Refunding Bonds Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor’s rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay in the exercise of, or limitations on or modifications to, the rights of the Owners.
Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by
the Community Facilities District, may become subject to the federal bankruptcy code and applicable
bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of
creditor’s rights generally, now or hereafter in effect, equity principles which may limit the specific
enforcement under State law of certain remedies, the exercise by the United States of America of the powers
delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of
the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving
a significant and legitimate public purpose and the limitations on remedies against governmental entities in the
State. See the captions “—Bankruptcy and Foreclosure Delays,” and “—FDIC/Federal Government Interests
in Properties.”

CONCLUDING INFORMATION

Underwriting

The Bonds are being purchased by Piper Jaffray & Co. (the “Underwriter”). The Underwriter has
agreed to purchase the Bonds at a price of $17,841,321.43 (being the aggregate principal amount thereof, less a
net original issue discount of $72,775.55 and less an Underwriter’s discount of $145,903.02). The purchase
agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are
purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such
purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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

Financial Advisor

Fieldman, Rolapp & Associates, Irvine, California (the “Financial Advisor”), served as financial
advisor to the City and the Authority with respect to the sale of the Bonds. The Financial Advisor will receive
compensation contingent upon the sale and delivery of the Bonds. The Financial Advisor has not undertaken
to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of
the information contained in this Official Statement.

Legal Opinion; Legal Matters

The legality of the Bonds and certain other legal matters are subject to the approval of Best Best &
Krieger LLP, Bond Counsel. Bond Counsel will render an opinion with respect to the validity and
enforceability of the Bonds and the Indenture, and a copy of the opinion will accompany each Bond. Such
opinion will be subject to the various assumptions, exceptions and limitations stated therein. Bond Counsel
also will render an opinion with respect to the validity and enforceability of the Special Tax Refunding Bonds.
See Appendix C—“FORM OF BOND COUNSEL OPINION.” Certain legal matters will be passed upon for
the Authority and the City by the City Attorney and by Stradling Yocca Carlson & Rauth, a Professional
Corporation, Newport Beach, California, Disclosure Counsel, for the Underwriter by McFarlin & Anderson
LLP, Laguna Hills, California, and for the Trustee by its counsel. Payment of the fees and expenses of Bond
Counsel, Disclosure Counsel and the Trustee is contingent upon the sale and delivery of the Bonds. Bond
Counsel and Disclosure Counsel have from time to time represented the Underwriter in connection with
various matters unrelated to the Bonds or the Special Tax Refunding Bonds.

Tax Matters

In the opinion of Best Best & Krieger LLP, San Diego, California, Bond Counsel, subject, however, to
the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income
for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority, the City and the Community Facilities District comply with all requirements of the Internal Revenue Code of 1986 (the “Code”) that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority, the City and the Community Facilities District have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the 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 Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater 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 bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser’s basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. The extent of these other tax consequences will depend upon the recipient’s particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

No Litigation

There is no action, suit, or proceeding pending or, to the best knowledge of the City, the Community Facilities District and the Authority, threatened at the present time restraining or enjoining the delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of the City, the Community Facilities District or the Authority taken with respect to the execution or delivery thereof. A no litigation opinion rendered by the City Attorney will be required to be delivered to the Underwriter simultaneously with the delivery of the Bonds.

Verification of Mathematical Computations

Grant Thornton LLP, Minneapolis, Minnesota, an independent firm of certified public accountants, will deliver to the Community Facilities District its reports indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Community Facilities District and its representatives. Included in the scope of its examination will be: (i) a verification of the mathematical accuracy of the computations of the adequacy of the cash deposited with the Escrow Bank to pay the interest, principal and redemption price coming due on the Prior Special Tax Bonds on and prior to their redemption date as described under the caption “THE FINANCING PLAN;” and (ii) the computations of yield of the Bonds and the Federal Securities which support Bond Counsel’s opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

Rating of Series B Bonds

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) is expected to assign a rating of “BBB” to the Series B Bonds. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on
investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series B Bonds. The Series C Bonds have not been rated.

**No Rating of Series C Bonds**

The Series C Bonds have not been rated.

**Continuing Disclosure**

The Community Facilities District for itself and as agent for the Authority has covenanted for the benefit of holders and beneficial owners of the Bonds: (1) to provide certain financial information and operating data (the “Annual Report”) relating to the Community Facilities District and the property in the Community Facilities District not later than March 1 after the end of the City’s Fiscal Year, commencing with the report for the 2011-12 Fiscal Year; and (2) to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Community Facilities District or a dissemination agent appointed by the Community Facilities District, with Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at http://emma.msrb.org/ (“EMMA”). The notices of enumerated events will be timely filed by the Community Facilities District or a dissemination agent on behalf of the City with EMMA. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the Continuing Disclosure Agreement. See Appendix D—“FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “Rule”).

It should be noted that the Community Facilities District is required to file certain financial statements with the Annual Report. This requirement has been included in the Continuing Disclosure Agreement solely to satisfy the provisions of the Rule. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the Authority or the City other than as described hereinabove. See the captions “SPECIAL RISK FACTORS—The Bonds are Limited Obligations of the Authority” and “—The Special Tax Refunding Bonds are Limited Obligations.”

The City, the Community Facilities District and the Authority have not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events in the last five years. The full text of the Continuing Disclosure Agreement is set forth in Appendix D.
**Miscellaneous**

All of the preceding summaries of the Indenture, the Special Tax Refunding Bonds Fiscal Agent Agreement, applicable legislation, agreements and other documents are made subject to the provisions of such documents and legislation and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement have been authorized by the members of the Board of Directors of the Authority and by the members of the City Council, as the legislative body of the Community Facilities District.

**SAN MARCOS PUBLIC FINANCING AUTHORITY**

By: /s/Jack Griffin

Executive Director
APPENDIX A

INFORMATION REGARDING THE CITY OF SAN MARCOS

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

The City of San Marcos, California (the “City”) is located approximately 24 miles north of downtown San Diego and 90 miles south of Los Angeles, in the northern coastal/inland region of San Diego County (the “County”). The Cerros Las Posas, Merriam and San Marcos foothills and a series of valleys are the chief topographic features. The City is accessible to San Diego, Orange, Imperial, San Bernardino, Riverside and Los Angeles Counties. The City is situated along the State Highway 78 Freeway corridor and is bordered by Escondido to the east, Vista to the north and west, Carlsbad to the south and west, and unincorporated areas of the County to the north and south.

Municipal Government

The City is a charter city, incorporated in 1963 and chartered on July 4, 1994. The City operates under a council/manager form of government. The City Council is comprised of five council members, elected at large on a staggered basis for a term of four years. The Mayor is directly elected for a four-year term. The City Council appoints the City Manager and the City Attorney. Public services are typically through independent, special services districts and by contractual agreements with the County of San Diego.

Risk Management

The City participates in the Southern California Joint Powers Insurance Authority (the “SCJPIA”), which is comprised of over 100 member cities. The SCJPIA was established under the California Government Code to administer a joint protection program wherein cities pool their losses and claims and jointly purchase excess insurance and administrative and other services. The liability self-insurance coverage arranged by the SCJPIA for its members includes protection for personal injury, errors and omissions, property damage and bodily injury (including workers’ compensation coverage).

Climate and Topography

The City is located 600 feet above sea level in rolling hills. The City has mild summers with an average high temperature of 77 degrees and moderate winters with an average winter high temperature of 69 degrees. Average rainfall, which occurs generally in the period between November and April, is 12 inches.

Assessed Valuations

For assessment and collection purposes, property is classified either as “secured” or unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.” Shown below is a summary of assessed valuations in the City for Fiscal Years 2007 through 2011.
### Fiscal Year Assessed Valuations

#### Fiscal Years 2007 through 2011

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Local Secured</th>
<th>Unsecured</th>
<th>Less Exemptions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$8,917,662,485</td>
<td>$332,372,762</td>
<td>$(288,440,819)</td>
<td>$8,961,594,428</td>
</tr>
<tr>
<td>2008</td>
<td>9,707,243,947</td>
<td>316,267,589</td>
<td>(336,468,219)</td>
<td>9,687,043,317</td>
</tr>
<tr>
<td>2009</td>
<td>9,612,859,892</td>
<td>336,188,166</td>
<td>(406,413,814)</td>
<td>9,542,634,244</td>
</tr>
<tr>
<td>2010</td>
<td>8,948,612,795</td>
<td>343,678,128</td>
<td>(433,607,449)</td>
<td>8,858,683,474</td>
</tr>
<tr>
<td>2011</td>
<td>8,829,981,997</td>
<td>343,767,058</td>
<td>(432,933,115)</td>
<td>8,740,815,940</td>
</tr>
</tbody>
</table>

Source: City of San Marcos Finance Department.

### Revenues and Expenditures

#### General Governmental Revenues by Source

<table>
<thead>
<tr>
<th>Category</th>
<th>Fiscal Year Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Taxes/Special Assessments</td>
<td>$94,466,701</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>4,753,491</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>9,093,528</td>
</tr>
<tr>
<td>Service Charges</td>
<td>11,486,338</td>
</tr>
<tr>
<td>Developer Fees</td>
<td>5,774,108</td>
</tr>
<tr>
<td>Fines &amp; Forfeits</td>
<td>181,280</td>
</tr>
<tr>
<td>Use of Money &amp; Property</td>
<td>19,676,632</td>
</tr>
<tr>
<td>Gain on sale of land held for resale</td>
<td>100,328</td>
</tr>
<tr>
<td>Contributions for property owners</td>
<td>11,424,122</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3,500,561</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$160,457,089</strong></td>
</tr>
</tbody>
</table>

(1) Includes General, Special Revenue, Debt Service and Capital Projects funds.  
Source: City of San Marcos Finance Department.
### CITY OF SAN MARCOS
### GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION(1)
### Fiscal Years 2007 through 2011

#### Fiscal Year Ended June 30

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$11,867,052</td>
<td>$12,733,906</td>
<td>$13,333,406</td>
<td>$14,825,068</td>
<td>$17,457,897</td>
</tr>
<tr>
<td>Community Development</td>
<td>6,888,307</td>
<td>8,761,007</td>
<td>43,870,002</td>
<td>17,085,690</td>
<td>10,223,010</td>
</tr>
<tr>
<td>Public Safety</td>
<td>24,441,222</td>
<td>26,225,302</td>
<td>27,392,057</td>
<td>27,461,612</td>
<td>27,317,174</td>
</tr>
<tr>
<td>Highways &amp; Streets</td>
<td>12,371,008</td>
<td>15,223,370</td>
<td>15,445,033</td>
<td>14,040,659</td>
<td>13,379,798</td>
</tr>
<tr>
<td>Culture &amp; Recreation</td>
<td>2,708,416</td>
<td>2,556,853</td>
<td>2,822,593</td>
<td>2,763,210</td>
<td>2,814,054</td>
</tr>
<tr>
<td>Tax Increment Distribution to Other Governmental Agencies</td>
<td>19,001,916</td>
<td>18,747,685</td>
<td>18,086,645</td>
<td>37,060,348</td>
<td>16,266,743</td>
</tr>
<tr>
<td>SERAF Payment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,163,078</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>55,027,905</td>
<td>46,197,846</td>
<td>39,281,839</td>
<td>38,456,751</td>
<td>26,289,568</td>
</tr>
<tr>
<td>Debt Service</td>
<td>23,774,653</td>
<td>31,064,243</td>
<td>25,392,922</td>
<td>24,546,342</td>
<td>26,023,272</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$156,808,479</strong></td>
<td><strong>$161,510,212</strong></td>
<td><strong>$185,634,497</strong></td>
<td><strong>$176,239,680</strong></td>
<td><strong>$143,934,594</strong></td>
</tr>
</tbody>
</table>

(1) Includes General, Special Revenue, Debt Service and Capital Projects funds.

Source: City of San Marcos Finance Department.

### Tax Levies, Collections and Delinquencies

The County Treasurer-Tax Collector collects *ad valorem* property tax levies representing taxes levied for each Fiscal Year on taxable real and personal property which is situated in the County as of the preceding January 1. Unsecured taxes are assessed and payable on March 1 and become delinquent August 31, in the following Fiscal Year. One-half of the secured tax levy is due on November 1 and becomes delinquent on December 10; the second installment is due on February 1 and becomes delinquent April 10. A 10% penalty is added to any late installment. On June 30, delinquent properties are sold to the State.

Property owners may redeem property upon payment of delinquent taxes and penalties. Properties sold to the State incur a redemption penalty of 1½% per month of the tax due. Properties may be redeemed under an installment plan by paying current taxes, plus 20% of delinquent taxes for five years. Interest accrues at 1½% per month on the unpaid balance. If no payments have been made on delinquent taxes at the end of five Fiscal Years, the property is deeded to the State. Such properties may thereafter be conveyed to the County Treasurer-Tax Collector as provided by law.

Set forth below is a summary of the secured property tax levies, collection delinquencies, and total collections for Fiscal Years 2007 through 2011.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
CITY OF SAN MARCOS
PROPERTY TAX LEVIES AND COLLECTIONS
Fiscal Years 2007 through 2011

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Taxes Levied for the Fiscal Year(^{(1)})</th>
<th>Collected within the Fiscal Year of the Levy</th>
<th>Total Collections to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage of Levy</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>$6,837,608</td>
<td>$6,368,465</td>
<td>$6,553,097</td>
</tr>
<tr>
<td>2008</td>
<td>6,773,119</td>
<td>6,341,932</td>
<td>6,509,387</td>
</tr>
<tr>
<td>2009</td>
<td>6,183,776</td>
<td>5,932,421</td>
<td>6,173,964</td>
</tr>
<tr>
<td>2010</td>
<td>5,575,114</td>
<td>5,363,998</td>
<td>5,591,308</td>
</tr>
<tr>
<td>2011</td>
<td>5,604,503</td>
<td>5,413,368</td>
<td>5,640,196</td>
</tr>
</tbody>
</table>

\(^{(1)}\) The amounts presented include City and Fire District property taxes.

\(^{(2)}\) Includes prior years’ delinquent collections, escapes, penalties and interest.

Source: City of San Marcos Finance Department.

Population

The City has grown from 3,896 people in 1970 to an estimated 84,734 as of January 1, 2011. The following is a tabulation of population data for the City.

CITY OF SAN MARCOS
POPULATION DATA

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3,896</td>
</tr>
<tr>
<td>1980</td>
<td>17,479</td>
</tr>
<tr>
<td>1990</td>
<td>38,974</td>
</tr>
<tr>
<td>2000</td>
<td>54,977</td>
</tr>
<tr>
<td>2005</td>
<td>72,564</td>
</tr>
<tr>
<td>2006</td>
<td>76,303</td>
</tr>
<tr>
<td>2007</td>
<td>79,273</td>
</tr>
<tr>
<td>2008</td>
<td>82,116</td>
</tr>
<tr>
<td>2009</td>
<td>82,879</td>
</tr>
<tr>
<td>2010</td>
<td>83,781</td>
</tr>
<tr>
<td>2011</td>
<td>84,734</td>
</tr>
</tbody>
</table>

Source: 1970, 1980, 1990, 2000 and 2010 figures are from the U.S. Bureau of the Census. All other figures have been estimated by the Demographic Research Unit, California State Department of Finance as of January 1 of each year listed.

Employment and Industry

The City’s total labor force, the number of persons who work or are available for work, averaged 31,000 in calendar year 2010. The number of employed workers in the labor force averaged 27,700.

The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the City for calendar years 2006 through 2011.
CITY OF SAN MARCOS
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Calendar Years 2006 through 2011

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Labor Force</th>
<th>Employed</th>
<th>Unemployed</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>29,800</td>
<td>28,600</td>
<td>1,200</td>
<td>4.0%</td>
</tr>
<tr>
<td>2007</td>
<td>30,200</td>
<td>28,800</td>
<td>1,400</td>
<td>4.5</td>
</tr>
<tr>
<td>2008</td>
<td>30,700</td>
<td>28,900</td>
<td>1,800</td>
<td>6.0</td>
</tr>
<tr>
<td>2009</td>
<td>30,900</td>
<td>27,900</td>
<td>3,000</td>
<td>9.6</td>
</tr>
<tr>
<td>2010</td>
<td>31,000</td>
<td>27,700</td>
<td>3,300</td>
<td>10.5</td>
</tr>
<tr>
<td>2011(1)</td>
<td>31,118</td>
<td>28,027</td>
<td>3,100</td>
<td>10.0</td>
</tr>
</tbody>
</table>

(1) Reflects data for January 1, 2011 through November 30, 2011 only.

Regional Employment

Employment data by industry is not separately reported on an annual basis for the City but is compiled for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (the “MSA”), which includes all of San Diego County. The following table represents the Annual Average Labor Force and Industry Employment for the MSA for the period from calendar years 2006 through 2010.

SAN DIEGO-CARLSBAD-SAN MARCOS METROPOLITAN STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY
Fiscal Years 2006 through 2010

<table>
<thead>
<tr>
<th>Fiscal Years Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
</tr>
<tr>
<td>Total All Industries</td>
</tr>
<tr>
<td>Farm</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Trade, Transportation and Utilities</td>
</tr>
<tr>
<td>Information</td>
</tr>
<tr>
<td>Financial Activities</td>
</tr>
<tr>
<td>Professional and Business Services</td>
</tr>
<tr>
<td>Education and Health Services</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
</tr>
<tr>
<td>Other Services</td>
</tr>
<tr>
<td>Government</td>
</tr>
</tbody>
</table>

Source: State of California Employment Development Department.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
The following table sets forth the principal employers in the City for the Fiscal Year ending June 30, 2010.

CITY OF SAN MARCOS
PRINCIPAL EMPLOYERS
Fiscal Year 2011

<table>
<thead>
<tr>
<th>Employer</th>
<th>Products/Services</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hunter Industries, Inc.</td>
<td>Manufacturing – Plastic Products</td>
<td>819</td>
</tr>
<tr>
<td>United Parcel Service</td>
<td>Delivery Service</td>
<td>448</td>
</tr>
<tr>
<td>Oncore Manufacturing Services</td>
<td>Manufacturing – Electronic Circuits</td>
<td>332</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>Retail – Variety Store</td>
<td>312</td>
</tr>
<tr>
<td>Lusardi Construction Co.</td>
<td>Construction</td>
<td>300</td>
</tr>
<tr>
<td>PCL Construction Inc.</td>
<td>Construction</td>
<td>300</td>
</tr>
<tr>
<td>Fry’s Electronics</td>
<td>Retail – Consumer Electronics</td>
<td>299</td>
</tr>
<tr>
<td>Southern California Permanente Medical Group</td>
<td>Services – Medical</td>
<td>278</td>
</tr>
<tr>
<td>Costco Wholesale</td>
<td>Retail – Variety Store</td>
<td>251</td>
</tr>
<tr>
<td>Vanpike, Inc.</td>
<td>Service - Employment</td>
<td>246</td>
</tr>
<tr>
<td>24 Hour Fitness</td>
<td>Fitness franchise</td>
<td>232</td>
</tr>
<tr>
<td>California State University San Marcos Foundation</td>
<td>Education</td>
<td>230</td>
</tr>
<tr>
<td>RB III Associates, Inc.</td>
<td>Apparel – Manufacturing</td>
<td>205</td>
</tr>
<tr>
<td>Fluid Components Intl., LLC</td>
<td>Manufacturing – Industrial</td>
<td>195</td>
</tr>
<tr>
<td>Hollandia Dairy Inc.</td>
<td>Retail – Dairy/Gasoline</td>
<td>190</td>
</tr>
<tr>
<td>Signet Armorlite, Inc.</td>
<td>Manufacturing – Plastic Products</td>
<td>188</td>
</tr>
<tr>
<td>Hughes Circuits Inc.</td>
<td>Manufacturing – Electronic Circuits</td>
<td>178</td>
</tr>
<tr>
<td>Regal Entertainment Group</td>
<td>Recreational – Movie</td>
<td>150</td>
</tr>
<tr>
<td>Home Depot</td>
<td>Retail – Building Supplies</td>
<td>142</td>
</tr>
<tr>
<td>Falmat Inc.</td>
<td>Manufacturing – Electronics</td>
<td>130</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5,425</strong></td>
</tr>
</tbody>
</table>

(1) Total Employment as used above represents the total employment of all employers located within the City of San Marcos limits.

Source: City of San Marcos.

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Commerce

Taxable sales in the City were approximately $1,152,121,000 in 2010, the most recent full year for which figures are available. The following shows the taxable transactions of the City for calendar years 2006 through 2010, as provided by the California State Board of Equalization.

CITY OF SAN MARCOS
TAXABLE TRANSACTIONS
(In Thousands)
Calendar Years 2006 through 2010

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Stores:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apparel stores</td>
<td>$</td>
<td>#</td>
<td>$37,473</td>
<td>$37,805</td>
<td>$45,664</td>
</tr>
<tr>
<td>General merchandise stores</td>
<td>150,631</td>
<td>163,007</td>
<td>162,969</td>
<td>153,945</td>
<td>155,508</td>
</tr>
<tr>
<td>Food stores</td>
<td>43,919</td>
<td>52,259</td>
<td>50,601</td>
<td>47,145</td>
<td>46,639</td>
</tr>
<tr>
<td>Eating and drinking places</td>
<td>102,658</td>
<td>115,763</td>
<td>113,633</td>
<td>110,772</td>
<td>114,768</td>
</tr>
<tr>
<td>Home furnishings and appliances</td>
<td>145,485</td>
<td>135,416</td>
<td>170,985</td>
<td>190,200</td>
<td>190,158</td>
</tr>
<tr>
<td>Building materials and farm implements</td>
<td>233,043</td>
<td>170,392</td>
<td>141,816</td>
<td>124,752</td>
<td>121,579</td>
</tr>
<tr>
<td>Auto dealers and auto supplies</td>
<td>68,147</td>
<td>95,996</td>
<td>66,205</td>
<td>42,624</td>
<td>48,273</td>
</tr>
<tr>
<td>Service stations</td>
<td>88,070</td>
<td>90,348</td>
<td>109,331</td>
<td>90,962</td>
<td>103,047</td>
</tr>
<tr>
<td>Other retail stores</td>
<td>224,238</td>
<td>168,410</td>
<td>126,751</td>
<td>85,760</td>
<td>85,430</td>
</tr>
<tr>
<td>Retail Stores Totals</td>
<td>1,056,191</td>
<td>1,029,064</td>
<td>977,761</td>
<td>883,965</td>
<td>911,067</td>
</tr>
<tr>
<td>All Other Outlets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total All Outlets</td>
<td>$1,459,066</td>
<td>$1,412,418</td>
<td>$1,290,812</td>
<td>$1,133,139</td>
<td>$1,152,121</td>
</tr>
</tbody>
</table>

# Sales omitted because their publication would result in disclosure of confidential information.
Source: California State Board of Equalization.

Construction

A summary of the value of the building permits issued in the City during Fiscal Years 2007 through 2011 is shown in the following table:

CITY OF SAN MARCOS
Building Construction Valuations
Fiscal Years 2007 through 2011

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Residential(1)</th>
<th>Commercial</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$95,464,171</td>
<td>$37,316,499</td>
<td>$13,100,940</td>
<td>$145,881,610</td>
</tr>
<tr>
<td>2008</td>
<td>29,855,750</td>
<td>14,865,192</td>
<td>14,954,397</td>
<td>59,675,343</td>
</tr>
<tr>
<td>2009</td>
<td>26,877,555</td>
<td>25,444,037</td>
<td>11,297,952</td>
<td>63,619,544</td>
</tr>
<tr>
<td>2010</td>
<td>33,277,959</td>
<td>3,612,745</td>
<td>11,055,977</td>
<td>47,946,681</td>
</tr>
<tr>
<td>2011</td>
<td>51,307,894</td>
<td>14,697,695</td>
<td>9,968,899</td>
<td>75,974,488</td>
</tr>
</tbody>
</table>

(1) Does not include mobile homes.
Source: City of San Marcos Building Department.

Transportation

Primary access to the City is provided by State Route 78, which is a major transportation corridor that extends in a general east-west direction from Escondido (Interstate 15) to Oceanside (Interstate 5). State Route 78 is one of the few major transportation corridors linking the coastal areas of the County to inland North County. The City can be accessed at various off-ramps from the highway, including Nordahl Road, Twin Oaks Valley Road, San Marcos Boulevard, Las Posas Road, Rancho Santa Fe Road, and Woodland Parkway.
This network of roads provides access to the various neighborhoods and districts dispersed throughout the community.

Interstate 5, along the coast (via State Highway 78), and Interstate 15, inland, provide full freeway access to the City from Los Angeles to the north and San Diego to the south.

Daily bus connections serve the City, passenger rail service on Southern Pacific Railway is 30 minutes to the west in Oceanside and San Diego’s Lindbergh International Airport is 35 minutes to the south of the City. The City is connected by the Sprinter light rail service to Amtrak and Metrolink train service in Oceanside, as well as the Escondido Transit Center to the east.

The North County Area is served by the AT&SF Railroad, a part of the transcontinental line linked with major rail networks. A number of industrial parcels throughout the City and the North County region are served by rail.

The smaller McClellan-Palomar Airport in Carlsbad is within minutes of North County cities and is popular among executives who have based nearly 100 corporate aircraft at full-service facilities. Commercial service is offered to San Diego, Los Angeles, Orange County and other southern California and Arizona locations. Air cargo service also may expand as industry expands in North County.

Access to the San Diego Harbor and the Port of San Diego from the City is convenient via rail and freeway connections.

Utilities and Other Local Services

The City provides a wide range of services to its residents, including basic local services such as planning, public works, community services recreation and parks, and fire protection. Vallecitos Water District provides domestic water service and sanitary sewer services, as well as water sewage treatment. Natural gas and electric power currently are supplied only by San Diego Gas & Electric Company. Telephone service is provided by multiple providers.

Education and Community Facilities

The City is the home to the campus of the California State University, San Marcos, which opened in the fall of 1992 on 305 acres, less than one-half mile south of the city hall. Ultimate enrollment at this four-year university is estimated at 35,000 students.

Two community colleges, Palomar (which is located in the City) and Mira Costa, schedule day and evening courses where residents can complete a two-year degree, obtain vocational training or take general education courses.

San Marcos Unified School District also provides eleven elementary schools, three middle schools, two high schools and one continuation high school.

Medical facilities include Escondido’s Palomar Medical Center with 328 total bed capacity, and a designated trauma center. There are approximately 400 physicians, surgeons, 450 registered nurses, and over 100 medical and health services available (e.g., family planning, dieticians, diabetes programs, women’s health services, cardiac, birth center & preparation classes) in the community Area.

Other planned projects for the City include the development of Scripps, Palomar-Pomerado and Kaiser Permanents Health Care Campuses. Although all of these projects are undergoing revised planning, one or more may include hospitals. Other facilities which may be included are: medical office buildings, a
skilled nursing facility, a behavioral medical center, a specialized treatment center, medical research buildings,
a fitness center, a child care center and an education center.

Recreational facilities in close proximity to the City include the San Diego Safari Park, Legoland, 25
golf courses within 20 miles of the City’s downtown, Lake Hodges, Lake Wohlford, Dixon Lake and Palomar
Observatory.

Community facilities include the recently completed San Marcos Town Center. The Town Center
covers nearly 60 acres at the northeast corner of Twin Oaks Valley Road and Highway 78, within view of
California State University, San Marcos. The Town Center project is a mixed use, public/private venture
consisting of a 150,000 square-foot city hall, a 30,000 square-foot multi-purpose community center and a
15,000 square-foot branch of the County Library. The Town Center also includes substantial open space and
recreational amenities and three private Class “A” office buildings totaling 225,000 square feet. The Town
Center also hosts two large restaurants and a 65,000 square feet health club-anchored retail center. A final,
approximately 40,000 square feet Class “A” office building is currently being designed for the one remaining
leasable pad.
APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF BOND DOCUMENTS

The following is a summary of selected provisions of the Indenture and the Fiscal Agent Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the documents summarized herein. Purchasers of the Bonds are referred to the complete text of each respective document, copies of which are available upon request from the Trustee.

INDENTURE

Definitions.

The capitalized terms set forth in the Indenture are defined as follows:

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

“Agreement” means that certain Amended and Restated Joint Exercise of Powers Agreement, dated January 10, 2012, by and between the City and the Fire Protection District and as hereafter duly amended and supplemented from time to time, creating the Authority for the purposes, among other things, of assisting the City and the Fire Protection District in the financing and refinancing of Public Capital Improvements, as such term is defined in the Bond Law.

“Annual Debt Service” means for each Bond Year:

(a) as to the Bonds, the sum of (i) the interest payable on the Outstanding Bonds in such Bond Year and (b) the principal amount of the Outstanding Bonds due in such Bond Year, including any mandatory sinking fund payments due in such Bond Year; and

(b) as to the Series B Bonds, the sum of (i) the interest payable on the Outstanding Series B Bonds in such Bond Year and (b) the principal amount of the Outstanding Series B Bonds due in such Bond Year, including any mandatory sinking fund payments due in such Bond Year.

“Authority” means the San Marcos Public Financing Authority, a joint powers authority organized and existing under the Agreement and under and by virtue of the laws of the State of California.

“Authority Administrative Expenses” means all actual costs and expenses incurred in connection with the administration of the Bonds, including but not limited to: (a) the fees and expenses payable to the Trustee, and its counsel, and other Persons for professional services rendered in connection with the administration, continuing disclosure and rebate obligations of or for the Bonds; and (b) fees and expenses of Independent Accountants for preparation of audits required by the Indenture.

“Authorized Denomination” means the principal amount or maturity amount, as applicable, of $5,000 or any integral multiple thereof.

“Authorized Representative” means: (a) with respect to the Authority, its Chairman, Vice Chairman, Executive Director, Secretary, or Treasurer or any other Person designated as an Authorized Representative of the Authority by a certificate of the Authority signed by its Executive Director and filed with the Community Facilities District, the Authority and the Trustee; (b) with respect to the City, its Mayor, Vice Mayor, City Manager, or Finance Director, or any other Person designated as an Authorized Representative of the City by a certificate signed on behalf of the City by its City Manager and filed with the Authority and the Trustee; (c) with respect to the Community Facilities District, the Authorized Representative of the City, or any other Person designated as an Authorized Representative of the City by a certificate signed on behalf of the Community Facilities District by the
An Authorized Representative may by written instrument designate any Person to act on his or her behalf.

“Average Annual Debt Service” means:

(a) as to the Bonds, the average over all Bond Years of the Annual Debt Service on the Bonds from the date of the Bonds to their maturity; and

(b) as to the Series B Bonds, the average over all Bond Years of the Annual Debt Service on the Series B Bonds from the date of the Series B Bonds to their maturity.

“Bond Counsel” means (a) Best Best & Krieger LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Law” means the Marks Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584), as in existence on the Closing Date or as thereafter amended from time to time.

“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, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2012.

“Bonds” means, unless otherwise expressly provided, the San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012B (Superior Lien Bonds) and the San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012C (Subordinate Lien Bonds), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

“Business Day” means a day of the year, other than a Saturday or Sunday, on which banks in the city in which the Trust Office of the Trustee is located are not required or authorized to remain closed.

“Certificate of the Authority” means a certificate in writing signed by an Authorized Representative of the Authority.

“Closing Date” means June 20, 2012, being the date of delivery of the Bonds to the original purchasers thereof.

“Community Facilities District” or “CFD No. 2002-01” means the City of San Marcos Community Facilities District No. 2002-01 (University Commons).

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of June 1, 2012, by and between the City, for itself and the Community Facilities District, and Union Bank, N.A., as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority and the Community Facilities District relating to the authorization, issuance, sale and delivery of the Bonds and the Special Tax Refunding Bonds, including but not limited to underwriter’s discount, printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges and first annual administrative fee of the Trustee and fees of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and the Special Tax Refunding Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds and the Special Tax Refunding Bonds.
“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation.

“Defeasance Obligations” means those investments identified in paragraph A of the Permitted Investments specified in Exhibit C hereto.

“Event of Default” means any of the events described in the Indenture.

“Fire Protection District” means the San Marcos Fire Protection District.

“Fiscal Agent” means the term “Fiscal Agent” as defined in the Fiscal Agent Agreement.

“Fiscal Year” means any twelve month period extending from July 1 in a calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year.

“Improvement Area” means Improvement Area No. 1 of the Community Facilities District.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions of the Indenture.

“Independent Accountant” means any certified public accountant or firm of certified accountants appointed and paid by the Community Facilities District, and who, or each of whom (a) is in fact independent and not under domination of the Authority, the City or the Community Facilities District; (b) does not have any substantial interest, direct or indirect, in the Authority, the City or the Community Facilities District; and (c) is not connected with the Authority or the City as an officer or employee of the Authority, the City or the Community Facilities District but who may be regularly retained to make annual or other audits of the books of or reports to the Authority, the City or the Community Facilities District.

“Independent Financial Consultant” means any financial consultant or firm of such consultants appointed and paid by the Authority, and who, or each of whom (a) is in fact independent and not under domination of the Authority, the City or the Community Facilities District; (b) does not have any substantial interest, direct or indirect, in the Authority, the City or the Community Facilities District; and (c) is not connected with the Authority or the City as an officer or employee of the Authority, the City or the Community Facilities District but who may be regularly retained to make annual or other audits of the books of or reports to the Authority, the City or the Community Facilities District.

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at http://emma.msrb.org); and, in accordance with then current guidelines of the Securities and Exchange Commission, and such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Interest Payment Date” means March 1 and September 1 in each year, beginning September 1, 2012, and continuing thereafter so long as any Bonds remain Outstanding.

“Maximum Annual Debt Service” means, as of the date of calculation:

(a). as to the Bonds, the largest Annual Debt Service on the Bonds, during the current or any future Bond Year; and

(b). as to the Series B Bonds, the largest Annual Debt Service on the Series B Bonds, during the current or any future Bond Year.


“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the disqualification of Bonds owned or held by or for the account of the City, the Community Facilities District or the Authority) all Bonds theretofore executed, issued and delivered by the Authority under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds paid or deemed to have been paid, and (c) Bonds in lieu of which other Bonds shall have been executed, issued and delivered pursuant to the Indenture or any Supplemental Indenture.

“Owner” or “Bond Owner,” when used with respect to any Bond, means the person in name the ownership of such Bond shall be registered on the Registration Books.

"Permitted Investments" means any of the investments listed below that at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall have no duty to investigate the legality of any investments):

A. The following obligations may be used for all purposes, including defeasance investments:

   (1) Cash (insured at all times by the Federal Deposit Insurance Corporation) or collateralized at all times by Permitted Investments described in clause (2) of the Indenture.

   (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

      (a) U.S. treasury obligations,

      (b) all direct or fully guaranteed obligations,

      (c) Farmers Home Administration,

      (d) General Services Administration,

      (e) Guaranteed Title XI financing,

      (f) Government National Mortgage Association (GNMA),

      (g) State and Local Government Series.

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or pre-payable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

B. The following obligations may be used as for all purposes other than defeasance investments in refunding escrow accounts:

   (1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

      (a) Export-Import Bank,

      (b) Rural Economic Community Development Administration,
(c) U.S. Maritime Administration,

(d) Small Business Administration,

(e) U.S. Department of Housing & Urban Development (PHAs),

(f) Federal Housing Administration,

(g) Federal Financing Bank.

(2) 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:

(a) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);

(b) obligations of the Resolution Funding Corporation (REFCORP);

(c) senior debt obligations of the Federal Home Loan Bank System.

(3) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(4) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1” or “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase.

(5) Investments in a money market fund rated “AAAm” or “AAAm-G” by S&P including funds for which the Trustee or an affiliate provides investment advice or other services.

(6) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice:

(a) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in A.(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(7) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P.

(8) Investment in the Local Agency Investment Fund of the State of California (LAIF), provided that any investment of the type authorized pursuant to paragraphs (d), (e), (h), and (i) of Section 53601 of the California Government Code are additionally restricted as provided in the appropriate paragraph or
paragraphs above applicable to such type of investment and provided further that investments authorized pursuant to paragraphs (r) and (m) of Section 53601 of the California Government Code are not permitted.

“Principal Prepayments” means any amounts received by the Trustee representing a redemption (other than a mandatory sinking fund redemption) of the Special Tax Refunding Bonds pursuant to the Fiscal Agent Agreement, consisting of the principal of the Special Tax Refunding Bonds being redeemed and the premium, if any, upon such redemption; but excluding the amount of regularly scheduled payments (including mandatory sinking fund payments) of principal of and interest on the Special Tax Refunding Bonds paid concurrent therewith.

“Prior Fiscal Agent” means Union Bank, N.A., acting in its capacity as fiscal agent pursuant to the Prior Fiscal Agent Agreement.

“Prior Fiscal Agent Agreement” means that Fiscal Agent Agreement, dated as of June 1, 2004, by and between the Community Facilities District and the Prior Fiscal Agent pertaining to the Prior Special Tax Bonds.

“Prior Special Tax Bonds” means the outstanding City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Bonds, Series 2004.

“Proportionate Share” means, as of the date of calculation for any Series of the Bonds when computing the proportionate share allocable to such Series of the Bonds among all Outstanding Bonds, the ratio derived by dividing the then Outstanding principal amount of such Series of Bonds by the then aggregate Outstanding principal amount of all Bonds.

“Rating Agency” means Standard & Poor’s or Moody’s.

“Rebate Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

“Registration Books” means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“Representation Letter” means the representation letter dated the Closing Date from the Authority and the Trustee to The Depository Trust Company.

“Request of the Authority” means a request in writing signed by an Authorized Representative of the Authority.

“Reserve Requirement” means the least of (i) 10% of the initial principal amount of the Bonds, (ii) Maximum Annual Debt Service on the Outstanding Bonds, or (iii) 125% of Average Annual Debt Service on the Outstanding Bonds.

“Revenue Fund” means the fund by that name established pursuant to the Indenture.

“Revenues” means: (a) amounts received from the Special Tax Refunding Bonds; (b) any proceeds of the Series B Bonds originally deposited with the Trustee in the funds and accounts established hereunder with respect to the Series B Bonds (other than the Rebate Fund and the Surplus Fund); and (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established hereunder with respect to the Series B Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund).

“RMA” means the First Amended and Restated Rate and Method of Apportionment of the Special Tax for the Improvement Area approved by the qualified electors within the Improvement Area at a special election held on October 21, 2003.
“Securities Depositories” means The Depository Trust Company, 55 Water Street, 25th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-5004; and, in accordance with then current guidelines of the securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Series” means, as to the Bonds, the Series B Bonds or the Series C Bonds.

“Series B Bonds” means the $13,820,000 San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012B (Superior Lien Bonds).

“Series B Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series B Principal Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series B Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Series B Reserve Requirement” means, as the date of calculation, the least of (i) 10% of the initial principal amount of the Series B Bonds, (ii) Maximum Annual Debt Service on the Outstanding Series B Bonds, or (iii) 125% of Average Annual Debt Service on the Outstanding Series B Bonds.

“Series C Bonds” means the $4,240,000 San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012C (Subordinate Lien Bonds).

“Series C Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series C Principal Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Series C Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Series C Reserve Requirement” means, as the date of calculation, the amount equal to the Reserve Requirement minus the Series B Reserve Requirement.

“Special Taxes” or “Special Tax” means the special tax authorized to be levied in the Improvement Area by the Community Facilities District pursuant to the Mello-Roos Act and the RMA.

“Special Tax Consultant” means any person or firm possessing demonstrated experience and expertise in the preparation of special tax formulas and/or the administration of special taxes levied for community facilities districts. Any such person or firm shall be appointed and paid by the Community Facilities District and who, or each of whom (a) is in fact independent and not under domination of the Authority, the Community Facilities District or the City; (b) does not have any substantial interest, direct or indirect, in the Authority, the Community Facilities District or the City; and (c) is not an officer or employee of the Authority, the Community Facilities District or the City, but who may be regularly retained by the Community Facilities District, the City or other community facilities districts formed by the City to administer the levy of special taxes within such community facilities districts.

“Special Tax Fund” means the fund by that name established pursuant to the Fiscal Agent Agreement.

“Special Tax Prepayment” means the proceeds of the prepayment of the Special Tax obligation for any parcel paid to the Community Facilities District pursuant to the provisions of the RMA and utilized by the Fiscal Agent to redeem Special Tax Refunding Bonds.
“Special Tax Prepayment Reserve Fund Credit” means, as to any parcel within the Improvement Area for which the Special Tax obligation is to be prepaid pursuant to the RMA, the amount, if any, by which the Series B Reserve Requirement or the Series C Reserve Requirement, as applicable, will be reduced as a consequence of the mandatory redemption of Bonds from Principal Prepayments that resulted from such prepayment of the Special Tax obligation.

“Special Tax Refunding Bonds” means the outstanding City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012A and the City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012B.

“Special Tax Refunding Bonds Delinquency Revenues” means Revenues received by the Trustee from the Fiscal Agent representing the payment of delinquent debt service on the Special Tax Refunding Bonds.

“Special Tax Refunding Bonds Purchase Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

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

“State” means the State of California.

“Subordinated Revenues” means (a) any proceeds of the Series C Bonds originally deposited with the Trustee, (b) that amount remaining in the Revenue Fund on each Interest Payment Date falling on March 1 after the deposits required by the Indenture on such Interest Payment Date have been made and which is necessary to make the deposit to the Series C Interest Account pursuant to the Indenture for such Interest Payment Date, (c) that amount remaining in the Revenue Fund on each Interest Payment Date falling on September 1 after the deposits required pursuant to the Indenture on such Interest Payment Date have been made and which is necessary to make the deposits to the Series C Interest Account pursuant to the Indenture and to the Series C Principal Account pursuant to the Indenture for such Interest Payment Date, (d) all moneys deposited and held from time to time by the Trustee in the funds and accounts established hereunder with respect to the Series C Bonds (other than the Rebate Fund and the Surplus Fund); and (e) investment income with respect to any moneys held by the Trustee in the funds and accounts established hereunder with respect to the Series C Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund).

“Supplemental Indenture” means any indenture, agreement or other instrument amending or supplementing the Indenture hereafter duly executed by the Authority and the Trustee in accordance with the provisions of the Indenture.

“Surplus Fund” means the account by that name established and held by the Trustee pursuant to the Indenture.

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

“Tax Code” means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Tax Code shall include the applicable Tax Regulations with respect to such provision.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Tax Code.

“Trust Office” means the corporate trust office of the Trustee at the address set forth in the Indenture, and such office as the Trustee may designate in writing to the Authority from time to time as the place for transfer, exchange or payment of the Bonds.
“Trustee” means Union Bank, N.A., and its successors and assigns, and any other corporation or association which may at any time be substituted in its place.

Revenues – Pledge and Assignment.

Series B Bonds. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, the Series B Bonds shall be secured by a first lien upon and pledge (which shall be perfected in the manner and to the extent hereinafter provided) of all of the Revenues and a pledge of all of the moneys in the Series B Interest Account and the Series B Principal Account of the Revenue Fund and in the Series B Reserve Fund, including all amounts derived from the investment of such moneys. The Series B Bonds shall be equally secured by a pledge of, and charge and lien upon, the Revenues without priority for number, date of execution or date of delivery; and the payment of the interest on and principal of the Series B Bonds and the premium, if any, upon the redemption of any thereof shall be and is secured by a first and prior pledge, charge and lien upon the Revenues and such moneys. So long as any of the Series B Bonds are Outstanding, the Revenues shall not be used for any purpose except as is expressly permitted by the Indenture.

Series C Bonds. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, the Series C Bonds shall be secured by a lien upon and pledge (which shall be effected in the manner and the extent hereinafter provided) of all of the Subordinated Revenues and a pledge of all of the moneys in the Series C Interest Account and the Series C Principal Account of the Revenue Fund and in the Series C Reserve Fund. The Series C Bonds shall be equally secured by a pledge of, and charge and lien upon, the Subordinated Revenues without priority for number, date of execution or date of delivery; and the payment of the interest on and principal of the Series C Bonds and the premium, if any, upon the redemption of any thereof shall be and is secured by a pledge, charge and lien upon the Subordinated Revenues. So long as any of the Series C Bonds are outstanding, the Subordinated Revenues shall not be used for any purpose except as is expressly permitted by the Indenture.

Funds and Accounts.

Special Tax Refunding Bonds Purchase Account. The Trustee shall establish and maintain the “Special Tax Refunding Bonds Purchase Fund” into which shall be deposited that portion of the proceeds from the sale of the Bonds specified in the Indenture. The Trustee shall pay the full amount on deposit in the Special Tax Refunding Bonds Purchase Fund on the Closing Date to the Fiscal Agent in payment of the purchase price for the purchase of the Special Tax Refunding Bonds.

Costs of Issuance Fund. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time upon receipt of a Requisition of the Authority. On the date which is one hundred eighty (180) days following the Closing Date, or upon the earlier receipt by the Trustee of a Written Request of the Authority stating that all Costs of Issuance have been paid, the Trustee shall transfer all remaining amounts in the Costs of Issuance Fund to the Revenue Fund and the Trustee shall close the Costs of Issuance Fund.

Revenue Fund. The Authority shall establish with the Trustee a special fund designated the “Revenue Fund” which the Trustee shall maintain and hold in trust. Within the Revenue Fund, the Trustee shall establish special accounts designated as the “Series B Principal Account,” the “Series B Interest Account,” “Series C Principal Account” and the “Series C Interest Account.”

All Revenues described in clause (a) of the definition thereof shall be promptly deposited by the Trustee upon receipt thereof in the Revenue Fund.

(a) On or before each Interest Payment Date, the Trustee shall transfer from the Revenue Fund, and deposit into the following respective accounts for the Series B Bonds, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:
(1) **Series B Interest Account.** On or before each date on which interest on the Series B Bonds becomes due and payable, the Trustee shall deposit in the Series B Interest Account the amounts required to cause the aggregate amount on deposit in the Series B Interest Account to equal the amounts of interest becoming due and payable on the Series B Bonds on such date. No deposit need be made into the Series B Interest Account on any date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Series B Bonds on such date. All moneys in the Series B Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series B Bonds, as it shall become due and payable (including accrued interest on any Series B Bonds redeemed prior to maturity). In the event that the amounts on deposit in the Series B Interest Account on any Interest Payment Date, after any transfers from the Series B Reserve Fund pursuant to the Indenture, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series B Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Series B Bonds on a pro rata basis.

(2) **Series B Principal Account.** On each March 1, the Trustee shall deposit in the Series B Principal Account an amount equal to one-half of the principal amount of the Series B Bonds that will become due and payable on the next succeeding September 1. On each September 1 on which principal of the Series B Bonds shall be payable, the Trustee shall deposit in the Series B Principal Account an amount required to cause the aggregate amount on deposit in the Series B Principal Account to equal the principal amount of, and premium (if any) on, the Series B Bonds coming due and payable on such date, or required to be redeemed on such date pursuant to the Indenture; provided, however, that no amount shall be deposited to effect a redemption pursuant to the Indenture unless the Trustee has first received a certificate of an Independent Financial Consultant certifying that such deposit to effect an optional redemption of the Series B Bonds will not impair the ability of the Authority to make timely payment of the principal of and interest on the Series B Bonds, assuming for such purposes that the Community Facilities District continues to make timely payments on all Special Tax Refunding Bonds not then in default. All moneys in the Series B Principal Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Series B Bonds at the maturity thereof or (ii) paying the principal of and premium (if any) on any Series B Bonds upon the redemption thereof pursuant to the Indenture.

(3) **Series B Reserve Fund.** On each Interest Payment Date on which the balance in the Series B Reserve Fund is less than the Series B Reserve Requirement, after making deposits required under (1) and (2) above, the Trustee shall transfer from the Revenue Fund an amount sufficient to increase the balance in the Series B Reserve Fund to the Series B Reserve Requirement, provided the value of the moneys deposited therein, as invested, shall be valued at market value on such transfer date for purposes of making such determination.

(4) **Special Tax Refunding Bonds Delinquency Revenues.** The Trustee shall disburse or transfer all Revenues representing Special Tax Refunding Bonds Delinquency Revenues in the following order of priority:

First, to make payments required upon the occurrence of a Series B Event of Default involving a default in the payment of principal of or interest on the Series B Bonds,

Second, to the Series B Reserve Fund to replenish the amount on deposit therein to the Series B Reserve Requirement, and

Third, to make the deposits specified in paragraphs (1) through (3) above.

(b) On each Interest Payment Date after making the deposits required under subparagraphs (a) above, the Trustee shall transfer from the Revenue Fund, and deposit into the following respective accounts, Subordinated Revenues in the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Subordinated Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) **Series C Interest Account.** On or before each date on which interest on the Series C Bonds becomes due and payable, the Trustee shall deposit Subordinated Revenues in the Series C Interest Account in
an amount required to cause the aggregate amount on deposit in the Series C Interest Account to equal the amount of interest becoming due and payable on the Series C Bonds on such date. No deposit need be made into the Series C Interest Account on any date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Series C Bonds on such date. All moneys in the Series C Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series C Bonds, as it shall become due and payable (including accrued interest on any Series C Bonds redeemed prior to maturity). In the event that the amounts on deposit in the Series C Interest Account on any Interest Payment Date, after any transfers from the Series C Reserve Fund pursuant to the Indenture, are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Series C Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Series C Bonds on a pro rata basis.

(2) Series C Principal Accounts. On each September 1 on which principal of the Series C Bonds shall be payable, the Trustee shall deposit Subordinated Revenues in the Series C Principal Account in an amount required to cause the aggregate amount on deposit in the Series C Principal Account to equal the principal amount of, and premium (if any) on, the Series C Bonds coming due and payable on such date, or required to be redeemed on such date pursuant to the Indenture; provided, however, that no amount shall be deposited to effect a redemption unless the Trustee has first received a certificate of an Independent Financial Consultant certifying that such deposit to effect an optional redemption of the Series C Bonds will not impair the ability of the Authority to make timely payment of the principal of and interest on the Series C Bonds, assuming for such purposes that the Community Facilities District continue to make timely payments on all Special Tax Refunding Bonds not then in default. All moneys in the Series C Principal Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Series C Bonds at the maturity thereof or (ii) paying the principal of and premium (if any) on any Series C Bonds upon the redemption thereof.

(3) Series C Reserve Fund. On each Interest Payment Date on which the balance in the Series C Reserve Fund is less than the Series C Reserve Requirement, after making deposits required under (1) and (2) above, the Trustee shall transfer from the Revenue Fund an amount sufficient to increase the balance in the Series C Reserve Fund to the Series C Reserve Requirement, provided the value of the moneys deposited therein, as invested, shall be valued at market value on such transfer date for purposes of making such determination.

(4) Special Tax Refunding Bonds Delinquency Revenues. The Trustee shall disburse or transfer all Subordinated Revenues representing Special Tax Refunding Bonds Delinquency Revenues in the following order of priority:

First, to make payments required pursuant to the Indenture upon the occurrence of a Series C Event of Default involving a default in the payment of principal of or interest on the Series C Bonds;

Second, to the Series C Reserve Fund to replenish the amount on deposit therein to the Series C Reserve Requirement, and

Third, to make the deposits specified in (1) through (3) above.

(c) If on any Interest Payment Date or date for redemption the amount on deposit in the Revenue Fund is inadequate to make the transfers described in subparagraphs (a) and (b) above as a result of a payment default on the Special Tax Refunding Bonds, the Trustee shall immediately notify the Community Facilities District of the amount needed to make the required deposits under subparagraphs (a) above and the amount needed to make the required deposits under subparagraphs (b) above. In the event that following such notice the Trustee receives additional payments from the Community Facilities District to cure such shortfall, the Trustee shall deposit such amounts to the Revenue Fund for application in accordance with subparagraphs (a) and (b) above.

(d) On each Interest Payment Date after making the transfers required under subparagraphs (a), (b) and (c) above, upon receipt of a Certificate of the Authority to do so, the Trustee shall transfer from the Revenue Fund to the Rebate Fund for deposit in the amount specified in such Certificate.
(e) On June 30, after making the deposits required under subparagraphs (a), (b), (c) and (d) above for the preceding March 1 Interest Payment Date and making the determination that there are adequate revenues on deposit with the Fiscal Agent and available to make the scheduled Debt Service payment on the Special Tax Refunding Bonds due on the following September 1 Interest Payment Date, and on September 1 of each year, after making the deposits required under subparagraphs (a), (b), (c) and (d) above for such September 1 Interest Payment Date, the Trustee shall transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund.

**Reserve Funds.**

**Series B Reserve Fund.**

1. There shall be maintained in the Series B Reserve Fund an amount equal to the Series B Reserve Requirement.

2. Moneys in the Series B Reserve Fund shall be used solely for the purposes set forth in the Indenture. Subject to the limitations set forth in the following paragraph, amounts in the Reserve Fund shall be applied to pay the principal of, including sinking fund payments, and interest on the Series B Bonds when due in the event that the moneys in the Series B Interest Account and/or the Series B Principal Account of the Revenue Fund are insufficient therefor. If the amounts in the Series B Interest Account and/or the Series B Principal Account of the Revenue Fund are insufficient to pay the principal of, including sinking fund payments, or interest on the Series B Bonds when due, the Trustee shall withdraw from the Series B Reserve Fund for deposit in the Series B Interest Account and/or the Series B Principal Account, as applicable, moneys necessary for such purposes.

3. In addition, amounts, if any, in the Series B Reserve Fund may be applied in connection with an optional redemption or a mandatory redemption or a defeasance of the Series B Bonds in whole or in part in accordance with the following sentence, or when the balance therein equals the principal and interest due on the Series B Bonds to and including maturity to pay the principal of and interest due on the Series B Bonds to maturity. Any amounts that would otherwise be on deposit in the Reserve Fund following any such optional redemption, mandatory redemption or defeasance that will be in excess of the Series B Reserve Requirement following such event shall be applied toward such optional redemption, mandatory redemption or defeasance, as applicable.

4. In the event that the Series C Bonds are no longer Outstanding and the Trustee receives written notice from the Community Facilities District executed by an Authorized Representative of the Community Facilities District notifying the Trustee of the Prepayment of the Special Tax obligation for any parcel and requesting the transfer of the applicable Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent, the Trustee shall not less than five (5) Business Days prior to the redemption date of the Special Tax Refunding Bonds from the Prepayment transfer an amount equal to the Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent.

5. On each September 2nd during the term of the Bonds, the Trustee shall calculate the Series B Reserve Requirement for the Bond Year commencing on such September 2nd. If the amount then on deposit in the Series B Reserve Fund exceeds the Series B Reserve Requirement as of the date of such calculation (the “Excess Series B Reserve Fund Amount”), the Trustee shall not less than five (5) Business Days thereafter transfer the Excess Series B Reserve Fund Amount to the Revenue Fund.

6. Investment earnings on the investment of money on deposit in the Series B Reserve Fund shall be deposited in the Series B Reserve Fund.

**Series C Reserve Fund.**

1. There shall be deposited and maintained in the Series C Reserve Fund an amount equal to the Series C Reserve Requirement.

2. Moneys in the Series C Reserve Fund shall be used solely for the purposes set forth in the Indenture. Subject to the limitations set forth in the following paragraph, amounts in the Reserve Fund shall be
applied to pay the principal of, including sinking fund payments, and interest on the Series C Bonds when due in the event that the moneys in the Series C Interest Account and/or the Series C Principal Account of the Revenue Fund are insufficient therefor. If the amounts in the Series C Interest Account and/or the Series C Principal Account of the Revenue Fund are insufficient to pay the principal of, including sinking fund payments, or interest on the Series C Bonds when due, the Trustee shall withdraw from the Series C Reserve Fund for deposit in the Series C Interest Account and/or the Series C Principal Account, as applicable, moneys necessary for such purposes.

3. In addition, amounts, if any, in the Series C Reserve Fund may be applied in connection with an optional redemption or a mandatory redemption or a defeasance of the Series C Bonds in whole or in part in accordance with the following sentence, or when the balance therein equals the principal and interest due on the Series C Bonds to and including maturity to pay the principal of and interest due on the Series C Bonds to maturity. Any amounts that would otherwise be on deposit in the Reserve Fund following any such optional redemption, mandatory redemption or defeasance that will be in excess of the Reserve Requirement following such event shall be applied toward such optional redemption, mandatory redemption or defeasance, as applicable.

4. In the event that the Trustee receives written notice from the Community Facilities District executed by an Authorized Representative of the Community Facilities District notifying the Trustee of the Prepayment of the Special Tax obligation for any parcel and requesting the transfer of the applicable Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent, the Trustee shall not less than five (5) Business Days prior to the redemption date of the Special Tax Refunding Bonds from the Prepayment transfer an amount equal to the Special Tax Obligation Prepayment Reserve Fund Credit to the Fiscal Agent.

5. On each September 2nd during the term of the Bonds, the Trustee Authority shall calculate the Series C Reserve Requirement for the Bond Year commencing on such September 2nd. If the amount then on deposit in the Series C Reserve Fund exceeds the Series C Reserve Requirement as of the date of such calculation (the “Excess Series C Reserve Fund Amount”), the Trustee shall not less than five (5) Business Days thereafter transfer the Excess Series C Reserve Fund Amount to the Revenue Fund.

6. Investment earnings on the investment of money on deposit in the Series C Reserve Fund shall be deposited in the Series C Reserve Fund.

Surplus Fund. Any amounts transferred to the Surplus Fund pursuant to the Indenture shall no longer be considered Revenues or Subordinated Revenues and are not pledged to repay the Bonds. So long as Special Tax Refunding Bonds are outstanding, on July 1 and September 2 of each year, the remaining balance, if any, in the Surplus Fund shall (i) be transferred by the Trustee to the Fiscal Agent for credit to the Special Tax Fund or (ii) as set forth in a Certificate of the District be applied to the redemption of Special Tax Refunding Bonds pursuant to the terms of the Fiscal Agent Agreement. In the event the Community Facilities District is no longer obligated to levy Special Taxes to repay Special Tax Refunding Bonds, then any amounts in the Surplus Fund may be used by the Authority for any lawful purpose, including, but not limited to, the payment of expenses of the Authority, the City or the Community Facilities District relating to the Bonds, the Special Tax Refunding Bonds, the Community Facilities District, or any other purpose as specified in a Certificate of the Authority delivered to the Trustee.

On September 1 of the Bond Year preceding the Bond Year of the final maturity of the Bonds, the remaining balance in the Surplus Fund shall be transferred by the Trustee to the Fiscal Agent for credit to the Special Tax Fund. Such amounts shall be applied to reduce debt service payments on Special Tax Refunding Bonds.

Rebate Fund. The Trustee shall, in accordance with written directions received from an Authorized Representative of the Authority, deposit into the Rebate Fund moneys transferred by the Fiscal Agent pursuant to the provisions of the Fiscal Agent Agreement. The Rebate Fund shall be held either uninvested or invested only in Permitted Investments described in clause B(5) of the definition thereof at the written direction of the Authority. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States, to the extent such payments are required by the Tax Certificate. The Trustee shall, upon written request and direction of an Authorized Representative of the Authority, make such payments to the United States.
Investments.

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments pursuant to the written direction of the Authority given to the Trustee two (2) Business Days in advance of the making of such investments. The Trustee shall be entitled to rely conclusively upon the written instructions of the Authority directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. With respect to any restrictions set forth in the definition of Permitted Investments which embody legal conclusions (e.g., the existence, validity and perfection of security interests in collateral), the Trustee shall be entitled to rely conclusively on an opinion of counsel obtained at the Authority’s expense. In the absence of any such direction from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause B(5) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction of the Authority specifying a specific money market fund and, if no such written direction of the Authority is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund shall be deemed to be of such fund or account.

Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on moneys received by it, but shall be liable only to account to the Authority for earnings derived from funds that have been invested.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the fund or account from which such investment was made. For purposes of acquiring or disposing of any investments hereunder, the Trustee may, in its discretion, commingle funds held by it hereunder. The Trustee or an affiliate of the Trustee may act as principal or agent in the acquisition or disposition of any investment and may engage in or be interested in any financial or other transaction with the Authority. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

The Trustee shall furnish the Authority periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Authority. Upon the Authority’s election, such statements will be delivered via the Trustee’s Online Trust and Custody service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

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

Covenants.

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal, of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this paragraph shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.
**Against Encumbrances.** The Authority shall not create, or permit the creation of, any pledge, lien, charge, or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

**Power to Issue Bonds and Make Pledge Assignment.** The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Special Tax Refunding Bonds and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid, and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee, subject to the provisions of the Indenture, shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

**Accounting Records and Financial Statement.** The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the Bond proceeds, the Revenues, the Special Tax Refunding Bonds and all funds and accounts established with the Trustee pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, the Independent Financial Consultant, the Underwriter, and the Community Facilities District, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee.

**No Additional Obligations.** The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues and the Subordinated Revenues, in whole or in part.

**Tax Covenants Relating to Bonds.** The Authority will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Authority or take or omit to take any action that would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Tax Code, or obligations which are “federally guaranteed” within the meaning of Section 149(b) of the Tax Code. The Authority will not allow five percent (5%) or more of the proceeds of the Bonds to be used in the trade or business of any non-governmental units and will not loan five percent (5%) or more of the proceeds of the Bonds to any non-governmental units.

The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Tax Code. The Authority will not directly or indirectly use or permit the use of any proceeds of the Bonds or any other funds of the Authority, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Tax Code. To that end, the Authority will comply with all requirements of Section 148 of the Tax Code to the extent applicable to the Bonds. In the event that at any time the Authority is of the opinion that for purposes of the Indenture it is necessary to restrict or limit the yield on the investment of any monies held under the Indenture or otherwise the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Authority agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Tax Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant shall survive payment in full or defeasance of the Bonds.

Notwithstanding any provision of the Indenture, if the Authority shall obtain an opinion of Bond Counsel to the effect that any action required under this covenant is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Tax Code, the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenant hereunder shall be deemed to be modified to that extent.
**Special Tax Refunding Bonds.** The Trustee, as the registered owner of the Special Tax Refunding Bonds and assignee of the Authority’s rights pursuant to the Indenture, shall receive all amounts due from the Community Facilities District pursuant to the Special Tax Refunding Bonds and the Fiscal Agent Agreement and, subject to its rights hereunder, shall enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority thereunder and for the enforcement of all of the obligations of the Community Facilities District.

The Trustee may at any time consent to the amendment or modification of the Special Tax Refunding Bonds or the Fiscal Agent Agreement, but only if (a) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment or modification; provided, however, that no such amendment or modification shall (i) extend the maturity of or reduce the amount of interest or principal payments on the Special Tax Refunding Bonds, or otherwise alter or impair the obligation of the Community Facilities District to pay the principal, interest or redemption premiums, if any, on the Special Tax Refunding Bonds at the time and place and at the rate and in the currency provided in the Indenture, without the express written consent of the Owner of each affected Bond, (ii) reduce the percentage of Bonds required for the written consent to any such modification or amendment thereof or of the Indenture, or (iii) without its written consent thereto, modify any of the rights or obligations of the Fiscal Agent; or (b) without the consent of the Trustee or any of the Bond Owners, if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Community Facilities District contained in such Special Tax Refunding Bonds or the Fiscal Agent Agreement other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the Community Facilities District, so long as such limitation or surrender of such rights or powers shall not materially adversely affect the Owners of the Bonds, in the opinion of Bond Counsel filed with the Authority and the Trustee;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in such Special Tax Refunding Bonds or the Fiscal Agent Agreement or in any other respect whatsoever as the Community Facilities District may deem necessary or desirable; provided that, in the opinion of Bond Counsel filed with the Authority and the Trustee, such modifications or amendments shall not, under any circumstance, materially adversely affect the interests of the Owners of the Bonds; or

(iii) to amend any provision thereof relating to the Tax Code, to any extent whatsoever but only if and to the extent that, in the opinion of Bond Counsel filed with the Authority and the Trustee, such amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under the Tax Code.

The Trustee shall be entitled to rely upon the opinion of Bond Counsel stating that the requirements of the Indenture have been met with respect to any amendment or modification of any Special Tax Refunding Bonds or the Fiscal Agent Agreement.

**Disposition of Special Tax Refunding Bonds.** The Trustee shall not sell or otherwise dispose of the Special Tax Refunding Bonds, or any interest therein, unless either (a) there shall have occurred and be continuing an Event of Default hereunder, or (b) the proceeds derived by the Trustee from such sale or other disposition are sufficient to enable the Trustee to redeem or defease all of the Outstanding Bonds in accordance with the terms of the Indenture.

**Collection of Revenues.** The Trustee shall collect and cause to be paid to it all Revenues promptly as such Revenues become due and payable, and shall enforce and cause to be enforced all rights of the Trustee, as the registered owner of the Special Tax Refunding Bonds, under and with respect to such Special Tax Refunding Bonds.

**Further Assurances.** The Authority will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Indenture.
Annual Reports to the California Debt and Investment Advisory Commission. Not later than October 30 of each year, commencing October 30, 2012 and until the October 30 following the final maturity of the Bonds, the Authority shall supply or cause to be supplied to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to California Government Code Section 6599.1.

Events of Default and Remedies of Bond Owners.

Events of Default. The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of any Series B Bond when and as the same shall become due and payable, whether at maturity as therein provided, by proceedings for redemption or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Series B Bond when and as such interest installment shall become due and payable.

(c) Default in the due and punctual payment of the principal of any Series C Bond when and as the same shall become due and payable, whether at maturity as therein provided, by proceedings for redemption or otherwise.

(d) Default in the due and punctual payment of any installment of interest on any Series C Bond when and as such interest installment shall become due and payable.

(e) Failure by the Authority to observe and perform any of the covenants, or conditions on its part in the Indenture or in the Bonds contained, other than as referred to in the preceding clauses (a) through (d), for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such thirty (30) day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Authority within such thirty (30) day period and diligently pursued until such failure is corrected; provided that no such extension shall exceed thirty (30) days.

(f) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default shall occur, and in each and every such case during the continuance of such Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest and premium (if any) on the Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture. Notwithstanding the foregoing, the Trustee shall not be permitted to take any action to enforce the payment of any Outstanding Series C Bonds which action would impair the receipt of Revenues necessary to pay the principal of and interest on the Outstanding Series B Bonds when and as the same shall become due and payable unless the Owners of a majority in aggregate principal amount of the Outstanding Series B Bonds shall have consented to such action.

If an Event of Default specified in clause (a) or (b) above shall have occurred and be continuing and if requested so to do by the Owners of a majority in aggregate principal amount of Outstanding Series B Bonds (determined in accordance with the provisions of the Indenture) and indemnified as provided in the Indenture, the Trustee shall exercise such one or more of such available remedies as the Trustee as directed in writing by the Series B Bond Owners.
If an Event of Default specified in clause (c) or (d) above shall have occurred and be continuing and if requested so to do by the Owners of a majority in aggregate principal amount of Outstanding Series C Bonds (determined in accordance with the provisions of the Indenture) and indemnified as provided in the Indenture, the Trustee shall exercise such one or more of such available remedies as the Trustee as directed in writing by the Series C Bond Owners.

If an Event of Default specified in clause (e) or (f) above shall have occurred and be continuing and if requested so to do by the Owners of a majority in aggregate principal amount of Outstanding Bonds (determined in accordance with the provisions of the Indenture) and indemnified as provided in the Indenture, the Trustee shall exercise such one or more of such available remedies as the Trustee as directed in writing by the Bond Owners.

No such remedy is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy available to the Trustee or to the Bond Owners or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein, and such right or power may be exercised from time to time as often as may be deemed expedient.

Application of Revenues and Other Funds After Default.

All Revenues and other amounts pledged to the payment of the interest on and principal of the Series B Bonds and the premium, if any, upon the redemption of any thereof received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture shall be applied by the Trustee in the following order upon presentation of the several Series B Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment, in the order of priority specified in the Indenture, of the fees, costs and expenses of the Trustee, including reasonable compensation to its agents, attorneys and counsel; and

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

(a) first, to the payment of interest on overdue installments of principal and interest on the Series B Bonds, on a pro rata basis, in the event that the available amounts are insufficient to pay all such interest in full,

(b) second, to the payment of all installments of interest on the Series B Bonds then due and payable, on a pro rata basis, in the event that the available amounts are insufficient to pay all such interest in full, and

(c) third, to the payment of principal of all of the Series B Bonds then due and payable, on a pro rata basis, in the event that the available amounts are insufficient to pay principal in full.

Application of Subordinate Revenues and Other Funds After Default.

All Revenues and other amounts pledged to the payment of the interest on and principal of the Series B Bonds and the premium, if any, upon the redemption of any thereof pursuant to any right given or action taken by the Trustee under the provisions of the Indenture shall be applied by the Trustee in the following order upon presentation of the several Series C Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment, in the order of priority specified in the Indenture, of the fees, costs and expenses of the Trustee, including reasonable compensation to its agents, attorneys and counsel; and
Second, to the payment of the whole amount of interest on and principal of the Series C Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the rate of interest then borne by the Outstanding Series C Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest, amounts shall be applied in the following order of priority:

(a) first, to the payment of interest on overdue installments of principal and interest on the Series C Bonds, on a pro rata basis, in the event that the available amounts are insufficient to pay all such interest in full,

(b) second, to the payment of all installments of interest on the Series C Bonds then due and payable, on a pro rata basis, in the event that the available amounts are insufficient to pay all such interest in full, and

(c) third, to the payment of principal of all of the Series C Bonds then due and payable, on a pro rata basis, in the event that the available amounts are insufficient to pay principal in full.

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

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

Remedies under the Special Tax Refunding Bonds. If any Event of Default shall occur under subparagraphs (a) or subparagraphs (b) of the Events of Default then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less then a majority of the aggregate principal amount of the Series B Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefore, shall, exercise any and all rights and pursue any and all remedies available pursuant to law or granted with respect to the Special Tax Refunding Bonds.

If any Event of Default shall occur under subparagraphs (c) or subparagraphs (d) of the Events of Default then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less then a majority of the aggregate principal amount of the Series C Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefore, shall, exercise any and all rights and pursue any and all remedies available pursuant to law or granted with respect to the Special Tax Refunding Bonds.
**Non Waiver.** Nothing in the Indenture, or in the Series B Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Series B Bonds to the respective Owners of the Series B Bonds at the respective dates of maturity out of the Revenues and other moneys pledged for such payment.

Nothing in the Indenture, or in the Series C Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Series C Bonds to the respective Owners of the Series C Bonds at the respective dates of maturity out of the Subordinate Revenues and other moneys pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners 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 of the Trustee or any Owner of any of the Bonds 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 Trustee or Bond Owners by the Bond Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

**Appointment of Separate or Co-Trustee.** Upon the appointment of a separate or co-trustee for the purpose of exercising and prosecuting on behalf of the Owners of the Series C Bonds such rights and remedies as may be available under the provisions of the Series C Bonds, the Indenture, the Bond Law and applicable provisions of any other law, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee for the protection of the interests of the Owners of the Series C Bonds, or for the exercise and prosecution on behalf of such Owners of such rights and remedies as may be available under the provisions of the Series C Bonds, the Indenture, the Bond Law and applicable provisions of any other law, shall be exercisable by and vest in such separate or co-trustee, but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by such separate or co-trustee. Upon any such appointment, for purposes of exercising and prosecuting such rights and remedies, references to the Trustee shall be deemed to be references to such separate or co-trustee and references to the Bonds shall be deemed to be references to the Series C Bonds.

**Rights and Remedies of Bond Owners.**

(a) No Owner of any Series B Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture related to an Event of Default specified in clauses (a) or (b) of the Events of Default, unless (i) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (ii the Owners of a majority in aggregate principal amount of all the Series B Bonds then Outstanding (determined in accordance with the provisions of the Indenture) shall have made written request upon the Trustee to exercise such remedy or to institute such action, suit or proceeding in its own name; (iii) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee shall have refused or failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

The right of any Owner of any Series B Bond to receive payment of the principal of and interest and premium (if any) on such Series B Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the any provision of the Indenture.
(b) No Owner of any Series C Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture related to an Event of Default specified in clauses (a) or (b) of the Events of Default, unless (i) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (ii) the Owners of a majority in aggregate principal amount of all the Series C Bonds then Outstanding (determined in accordance with the provisions of the Indenture) shall have made written request upon the Trustee to exercise such remedy or to institute such action, suit or proceeding in its own name; (iii) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee shall have refused or failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

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

Modification or Amendment of the Indenture.

Amendments Applicable to All Bonds. The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Bond so affected, (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Amendments Applicable to only the Series B Bonds. The Indenture and the rights and obligations of the Authority, the Owners of the Series B Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, provided that such modification or amendment does not materially adversely affect the interests of the Owners of the Series C Bonds hereunder, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Series B Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Series B Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Series B Bond so affected, (ii) reduce the aforesaid percentage of Series B Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Series B Bonds then Outstanding, or
(iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Series B Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Series B Bonds then Outstanding. It shall not be necessary for the consent of the Series B Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Amendments Applicable to only the Series C Bonds. The Indenture and the rights and obligations of the Authority, the Owners of the Series C Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, provided that such modification or amendment does not materially adversely affect the interests of the Owners of the Series B Bonds hereunder, which the Authority and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Series C Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Series C Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Subordinate Bond so affected, (ii) reduce the aforesaid percentage of Series C Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Series B Bonds then Outstanding, or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Series C Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Series C Bonds then Outstanding. It shall not be necessary for the consent of the Series C Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Amendments Authorized without Consent of the Bond Owners. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding upon its execution, without consent of any Owners, to the extent permitted by law but only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements hereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in any other respect whatsoever, as the Authority may deem necessary or desirable, provided that in the opinion of Bond Counsel filed with the Authority and the Trustee such modification or amendment does not materially adversely affect the interests of the Bond Owners;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to amend any provision of the Indenture relating to the Tax Code, to any extent whatsoever, but only if and to the extent that, in the opinion of Bond Counsel filed with the Authority and the Trustee, such amendment will not adversely affect the exclusion from gross income of interest on any of the Bonds under the Tax Code; or

(v) any other amendment if it does not materially adversely affect the interests of the Owners.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.
**Effect of Supplemental Indenture.** From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Outstanding Bonds, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

**Endorsement or Replacement of Bonds After Amendment.** After the effective date of any action taken to amend the Indenture, the Authority may determine that the Bonds shall bear a notation, by endorsement in form approved by the Authority, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his or her Bond for that purpose at the Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case, upon demand of the Owner of any Bond Outstanding at such effective date, such new Bonds shall be exchanged at the Trust Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

**Amendment by Mutual Consent.** The provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him or her, provided that due notation thereof is made on such Bond.

**Discharge of Indenture.** If the Authority shall pay and discharge any or all of the Outstanding Series B Bonds or Series C Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Series B Bonds or Series C Bonds, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture, is fully sufficient to pay such Series B Bonds or Series C Bonds, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness of such Series B Bonds or Series C Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Series B Bonds or Series C Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been mailed or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the Request of the Authority, and notwithstanding that any of such Series B Bonds or Series C Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Series B Bonds or Series C Bonds, and all other pecuniary obligations of the Authority under the Indenture with respect to all such Series B Bonds or Series C Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Series B Bonds or Series C Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Any funds held by the Trustee following any payment or discharge of the Outstanding Series B Bonds or Series C Bonds pursuant to the Indenture, which are not required for said purposes, shall be paid over to the Authority.

**Liability of Authority Limited to Revenues.** Notwithstanding anything in the Indenture contained, the Authority shall not be required to advance any moneys derived from any source of income other than the Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants contained in the Indenture (except to the extent any such covenants are expressly payable hereunder from the Revenues or otherwise from amounts payable under the Special Tax Refunding Bonds).
The Bonds shall be revenue bonds, payable exclusively from the Revenues and other funds as in the Indenture provided. The general fund of the Authority is not liable, and the credit of the Authority is not pledged, for the payment of the interest and premium (if any) on or principal of the Bonds. The Owners of the Bonds shall never have the right to compel the forfeiture of any property of the Authority. The principal of and interest on the Bonds, and any premiums upon the redemption of any thereof, shall not be a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues and other funds pledged to the payment thereof as in the Indenture provided.

FISCAL AGENT AGREEMENT

Definitions.


“Administrative Expense Fund” means the fund by that name established pursuant to the Fiscal Agent Agreement.

“Administrative Expense Requirement” means an annual amount equal to $80,000, or such lesser amount as may be designated by an Officer’s Certificate executed by an Authorized Officer of the Community Facilities District, to be allocated for the payment of the Administrative Expenses as the first priority of Special Taxes received each Fiscal Year.

“Administrative Expenses” means any or all of the following: the fees and expenses of the Fiscal Agent (including the fees and expenses of its counsel), the expenses of the City or the Community Facilities District in carrying out its duties under the Indenture (including, but not limited to, the levying and collection of the Special Taxes, complying with the disclosure provisions of the Act, the Continuing Disclosure Agreement and the Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Bondowners and the Original Purchaser); the costs of the City and the Community Facilities District or their designees related to an appeal of the Special Tax; any costs of the City and the Community Facilities District (including fees and expenses of counsel) to defend the first lien on and pledge of the Special Taxes to the payment of the Bonds or otherwise in respect of litigation relating to the Community Facilities District or the Bonds or with respect to any other obligations of the Community Facilities District; the Authority Administrative Expenses allocable to the Bonds, the salaries of City staff directly related to the carrying out by the City of its obligations under the Indenture or under the Authority Indenture and a proportionate amount of City general administrative overhead related thereto allocable to the Bonds; and all other costs and expenses of the City, the Community Facilities District, and the Fiscal Agent incurred in connection with the discharge of their respective duties under the Indenture, and in the case of the City, in any way related to the administration of the Community Facilities District and all actual costs and expenses incurred in connection with the administration of the Bonds.

“Agreement” means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions of the Fiscal Agent Agreement.

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

“Auditor” means the auditor/tax collector of the County of San Diego.

“Authority” means the San Marcos Public Financing Authority and any successor thereto.

“Authority Bonds” means any bonds outstanding under the Authority Indenture, which are secured by payments to be made on the Bonds.
“Authority Indenture” means that certain Indenture of Trust, dated as of June 1, 2012, by and between the Authority and the Authority Trustee, pursuant to which the Authority Bonds are issued.

“Authority Trustee” means Union Bank, N.A., or any successor thereto appointed under the Authority Indenture.

“Authorized Officer” means: (a) with respect to the Community Facilities District, the Authorized Officer of the City, or any other Person designated as an Authorized Officer of the City by a certificate signed on behalf of the Community Facilities District by the City Manager and filed with the Authority and the Fiscal Agent; (b) with respect to the City, its Mayor, Vice Mayor, City Manager, or Finance Director, or any other Person designated as an Authorized Officer of the City by a certificate signed on behalf of the City by its City Manager and filed with the Authority and the Fiscal Agent; (c) with respect to the Authority, its Chairman, Vice Chairman, Executive Director, Secretary, or Treasurer or any other Person designated as an Authorized Officer of the Authority by a certificate of the Authority signed by its Executive Director and filed with the Community Facilities District, the Authority and the Fiscal Agent; and (d) with respect to the Trustee, the President, any Vice President, any Assistant Vice President, any Senior Authorized Officer, or any Trust Officer of the Fiscal Agent, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Fiscal Agent or the by-laws of the Fiscal Agent. An Authorized Officer may by written instrument designate any Person to act on his or her behalf.

“Bond Counsel” means (i) Best Best & Krieger LLP; or (ii) any attorney or firm of attorneys acceptable to the Community Facilities District and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established pursuant to the provisions of the Fiscal Agent Agreement.

“Bond Year” means the one-year period beginning on September 2 in each year and ending on September 1 in the following year except that the first Bond Year shall begin on the Closing Date and end on September 1, 2012.


“Business Day” means a day which is not a Saturday, Sunday, or legal holiday on which banking institutions in the State of California, or in any state in which the Principal Office of the Fiscal Agent is located, or the New York Stock Exchange are closed. If any payment under the Fiscal Agent Agreement is due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such previous day.

“CDIAC” means the California Debt and Investment Advisory Commission of the office of the State Treasurer of the State of California or any successor agency or bureau thereto.

“City” means the City of San Marcos, California.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced in the Fiscal Agent Agreement) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Community Facilities District” means the City of San Marcos Community Facilities District No. 2002-01 (University Commons).
“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement relating to the Authority Bonds, executed on the Closing Date by the Community Facilities District on behalf of the Authority, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

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

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

“Defeasance Obligations” means those obligations described in paragraph A. of the definition of Permitted Investments.

“Escrow Bank” means U.S. Bank National Association, acting as escrow agent under the Escrow Agreement.

“Escrow Agreement” means that Escrow Deposit and Trust Agreement dated as of February 16, 2012 among the Authority, the Public Facilities Authority, the Community Facilities District and the Escrow Bank relating to defeasance of the Prior Public Facilities Authority Bonds.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code; (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code; (iii) the investment is a United States Treasury Security - State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt; or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Fiscal Agent” means Union Bank, N.A., acting as an independent fiscal agent with the duties and powers provided in the Fiscal Agent Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent Agreement.

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

“Improvement Area” means Improvement Area No. 1 of the Community Facilities District.

“Independent Accountant” shall have the same meaning given such term in the Authority Indenture.

“Independent Financial Consultant” shall have the same meaning given such term in the Authority Indenture.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2012.

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

“Legislative Body” means the City Council of the City, acting in its capacity as the legislative body of the Community Facilities District.
“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Net Special Tax Revenues” means, for each Fiscal Year, all Special Tax Revenues received by the Community Facilities District minus an amount equal to the Administrative Expense Requirement for such Fiscal Year.

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


“Original Purchaser” means the Authority.

“Outstanding,” means (subject to the provisions of the Fiscal Agent Agreement), when used as of any particular time with reference to Bonds, all Bonds except: (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued, and delivered by the Community Facilities District pursuant to the Agreement.

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

“Permitted Investments” shall have the same meaning given such term in the Authority Indenture.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prepayments” means Special Tax Revenues identified to the Fiscal Agent by an Authorized Officer as representing a prepayment of the Special Tax pursuant to the RMA.

“Principal Office” means the principal corporate trust office of the Fiscal Agent as may be designated from time to time by the Fiscal Agent in writing to the Community Facilities District initially set forth in the Fiscal Agent Agreement.

“Prior Fiscal Agent” means Union Bank, N.A., in its capacity as the fiscal agent for the Prior Special Tax Bonds pursuant to the Fiscal Agent Agreement, dated as of June 1, 2004, by and between the Community Facilities District and Union Bank, N.A., formerly known as Union Bank of California, N.A.

“Prior Special Tax Bonds” means the outstanding City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Bonds, Series 2004.

“Record Date” means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date.


“RMA” means the First Amended and Restated Rate and Method of Apportionment of the Special Tax for the Improvement Area approved by the qualified electors within the Improvement Area at a special election held on October 21, 2003.

“Series” means either the Series 2012A Bonds or the Series 2012B Bonds.
“Series 2012A Bonds” means the City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012A, authorized by, and at any time Outstanding pursuant hereto.

“Series 2012B Bonds” means the City of San Marcos Community Facilities District No. 2002-01 (University Commons) Improvement Area No. 1 Special Tax Refunding Bonds, Series 2012B, authorized by, and at any time Outstanding pursuant hereto.

“Series B Reserve Fund” shall have the meaning given such term in the Authority Indenture.

“Series B Reserve Requirement” shall have the meaning given such term in the Authority Indenture.

“Series C Reserve Fund” shall have the meaning given such term in the Authority Indenture.

“Series C Reserve Requirement” shall have the meaning given such term in the Authority Indenture.

“Special Tax Fund” means the fund by that name established pursuant to the provisions of the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the Community Facilities District including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest and penalties thereon. “Special Tax Revenues” does not include any attorney’s fees or costs recovered by the City or the Community Facilities District in connection with the collection of delinquent Special Taxes.

“Special Taxes” means the special taxes levied within the Improvement Area of the Community Facilities District pursuant to the Act, the RMA, the Ordinance, and the Agreement.

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the Governing Body under the Act and which agreement is amendatory of or supplemental to the Agreement, but only if and to the extent that such agreement is specifically authorized under the Fiscal Agent Agreement.

“Treasurer” means the person who is acting in the capacity as treasurer or finance director to the City or the designee of either such officer.

**Type and Nature of the Bonds, Limited Obligation.**

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof other than the Community Facilities District is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City nor general obligations of the Community Facilities District but are limited obligations of the Community Facilities District payable solely from Net Special Tax Revenues. The Community Facilities District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds from the Net Special Tax Revenues is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds may compel the exercise of the taxing power by the Community Facilities District (except as it pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions except the Community Facilities District 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 of the Community Facilities District’s property, or upon any of its income, receipts or revenues, except the Net Special Tax Revenues and amounts on deposit in the Special Tax Fund and the Bond Fund to the extent pledged under the Fiscal Agent Agreement which are, under the terms of the Agreement and the Act, set aside for the payment of the Bonds and interest thereon and neither the members of the
legislative body of the Community Facilities District nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Equality of Bonds and Pledge of Special Tax Revenues. Pursuant to the Act and the Agreement, the Bonds shall be equally payable from the Special Tax Revenues and other amounts in the Special Tax Fund 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 Special Tax Revenues and other certain other amounts in the Special Tax Fund, which are set aside for the payment of the Bonds. Amounts in the Special Tax Fund shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Agreement.

Funds and Accounts.

Special Tax Fund.

Establishment of Special Tax Fund. There is established as a separate fund to be held by the Fiscal Agent, the “Special Tax Fund,” to the credit of which the Community Facilities District or the City, on behalf of the Community Facilities District, shall deposit, immediately upon receipt, all Special Tax Revenue received by the Community Facilities District or the City, on behalf of the Community Facilities District and all amounts transferred by the Authority Trustee to the Fiscal Agent pursuant to the Authority Indenture. Moneys in the Special Tax Fund shall be held by the Fiscal Agent for the benefit of the Community Facilities District and the Owners of the Bonds, shall be disbursed as provided below and, pending any disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Disbursements of Special Tax Revenues. The Special Tax Revenues deposited in the Special Tax Fund shall be held and, other than Special Tax Revenues representing Prepayments, subsequently transferred by the Fiscal Agent and/or deposited in the following funds and accounts not later than the dates and in the amounts set forth in the following paragraphs and in the following order of priority:

1. to the Administrative Expense Fund an amount equal to the Administrative Expense Requirement for such Fiscal Year;

2. after making the deposit required pursuant to paragraph 1 above, the amount representing past due installments of principal, interest and premium on the Bonds (including any interest accruing thereon), if any, resulting from the delinquency in the payment of such Special Taxes to the Bond Fund;

3. no later than ten (10) Business Days prior to each Interest Payment Date after making the deposits required pursuant to paragraphs 1 and 2 above, to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund such that the amount in the Bond Fund equals the principal, premium, if any, and interest due on the Bonds on the next Interest Payment Date;

4. no later than ten (10) Business Days prior to each Interest Payment Date after making the deposits required pursuant to paragraphs 1 through 3 above, to the Authority Trustee for deposit in the Series B Reserve Fund that amount, if any, necessary to replenish the amount on deposit in the Series B Reserve Fund to the Series B Reserve Requirement;

5. no later than ten (10) Business Days prior to each Interest Payment Date after making the deposits and transfer required pursuant paragraphs 1 through 4 above, to the Authority Trustee for deposit in the Series C Reserve Fund that amount, if any, necessary to replenish the amount on deposit in the Series C Reserve Fund to the Series C Reserve Requirement;

6. on September 2 of each year (or as soon thereafter as funds become available) after making the deposits and transfers required under paragraphs 1 through 5 above, upon receipt of written instructions from an Authorized Officer on or before the preceding June 30, to the Authority Trustee the amount specified in such
written instructions necessary for the payment of any rebate amount due and owing to the United States of America by the Authority on the Authority Bonds;

7. on September 2 of each year (or as soon thereafter as funds become available) after making the deposits and transfers required under paragraphs 1 through 6 above, upon receipt of an Officer’s Certificate executed by an Authorized Officer of the Community Facilities District, to the Administrative Expense Fund the amount specified in such Officer’s Certificate necessary for payment of the estimated Administrative Expenses incurred by the Community Facilities District in the preceding Fiscal Year in excess of the Administrative Expense Requirement; and

8. after September 2 of each year, after making the deposits and transfers made pursuant to paragraphs 1 through 7 above, monies then on deposit in the Special Tax Fund shall remain therein and shall be subsequently deposited or transferred pursuant to the provisions of paragraphs 1 through 7 above.

Transfer of Prepayments. Special Tax Revenues constituting Prepayments shall be transferred by the Treasurer to the Fiscal Agent and placed by the Fiscal Agent in a segregated account within the Bond Fund designated as “Prepayment Account” and used to redeem Bonds. Any such transfer of Prepayments shall be accompanied by written instructions executed by the Treasurer or an Authorized Officer directing the Fiscal Agent to place such Prepayments in the Prepayment Account.

Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the provisions of the Fiscal Agent Agreement. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Administrative Expense Fund.

Establishment of Administrative Expense Fund. There is established, as a separate fund to be held by the Fiscal Agent, the “Administrative Expense Fund” to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Administrative Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the City, the Community Facilities District and the Authority, and shall be disbursed as provided below.

Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City, the Authority or the order thereof upon receipt by the Fiscal Agent of an Officer’s Certificate of the Community Facilities District stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense and the nature of such expense. Amounts on deposit in the Administrative Expense Fund at the end of any Fiscal Year shall be retained in such fund as an operating reserve and shall be disbursed as provided for in this paragraph B.

Investment. Moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the provisions of the Fiscal Agent Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Bond Fund.

Establishment of Bond Fund. There is established as a separate fund to be held by the Fiscal Agent designated the “Bond Fund” and, within the Bond Fund, the “Prepayment Account” to the credit of which deposits shall be made as required pursuant to the provisions of the Fiscal Agent Agreement, and any other amounts required to be deposited therein by the Agreement or the Act. In addition to the foregoing deposits, the Fiscal Agent shall deposit (i) any funds transferred by the Authority Trustee to the Fiscal Agent pursuant to the provisions of the Authority Indenture in the Bond Fund and (ii) any funds representing a Special Tax Obligation Prepayment Reserve Fund Credit transferred by the Authority Trustee to the Fiscal Agent pursuant to the provisions of the Authority Indenture in the Prepayment Account of the Bond Fund. Moneys in the Bond Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and
interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

**Disbursements.** On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, then due and payable on the Bonds, provided, however, that available amounts in the Bond Fund shall first be used to pay to the Owners of the Bonds any past due installments of interest, principal (including mandatory sinking payments) of and premium, if any, on the Bonds, in that order. Amounts transferred to the Bond Fund from the Special Tax Fund shall immediately be paid to the Owners of the Bonds in respect of past due payments on the Bonds. Amounts transferred to the Prepayment Account pursuant to the Fiscal Agent Agreement shall be used to redeem Bonds pursuant to the Fiscal Agent Agreement.

If after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments provided for, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal and any mandatory sinking payments due on the Bonds. Any installment of principal (including mandatory sinking payments), premium, if any, or interest on the Bonds which is not paid when due shall accrue interest at the rate of interest on the Bonds until paid, and shall be paid whenever funds in the Bond Fund are sufficient therefor.

If at any time the Fiscal Agent fails to pay principal and interest due on any scheduled payment date for the Bonds, the Fiscal Agent shall notify the Community Facilities District and the Treasurer in writing of such failure, and the Treasurer shall notify the California Debt Advisory Commission of such failure within 10 days of the failure to make such payment, as required by Section 53359(c)(1) of the Act.

**Investment.** Moneys in the Bond Fund shall be invested and deposited in accordance with the provisions of the Fiscal Agent Agreement. Interest earnings and profits resulting from the investment and deposit of amounts in the Bond Fund shall be retained in the Bond Fund.

**Covenants.**

**Warranty.** The Community Facilities District shall preserve and protect the security pledged under the Fiscal Agent Agreement to the Bonds against all claims and demands of all persons.

**Covenants.** So long as any of the Bonds issued under the Fiscal Agent Agreement are Outstanding and unpaid, the Community Facilities District makes the covenants set forth in the Fiscal Agent Agreement with the Bondowners under the provisions of the Act and the Fiscal Agent Agreement (to be performed by the Community Facilities District or the City, acting for and on behalf of the Community Facilities District, or its proper officers, agents and employees), which are covenants necessary and desirable to secure the Bonds and tend to make the Bonds more marketable; provided, however, that such covenants do not require the Community Facilities District to expend any funds or moneys other than the Special Tax Revenues.

**Punctual Payment.** The Community Facilities District shall punctually pay or cause to be paid the principal of, and interest and any premium on, the Bonds when and as due in strict conformity with the terms of the Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Agreement and of the Bonds.

**Limited Obligation.** The Bonds are limited obligations of the Community Facilities District and are payable solely from and secured solely by the Net Special Tax Revenues and the amounts in the Bond Fund and the Special Tax Fund created under the Fiscal Agent Agreement.

**Payment of Claims.** The Community Facilities District will pay and discharge any and all lawful claims for labor, materials, or supplies which, if unpaid, might become a lien or charge upon the Special Tax Revenues or which might otherwise impair the security of the Bonds then Outstanding; provided that nothing contained in the Fiscal Agent Agreement shall require the Community Facilities District to make any such payments so long as the Community Facilities District in good faith shall contest the validity of any such claims.
Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the Community Facilities District shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Community Facilities District, such claim for interest so extended or funded shall not be entitled, in case of default under the Fiscal Agent Agreement, to the benefits of the Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have so extended or funded.

Against Encumbrances. The Community Facilities District will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created in the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted by the Agreement.

Parity Bonds. The Community Facilities District covenants that it will not issue any other obligations payable, principal or interest, from the Special Taxes which have, or purport to have, any lien upon the Special Taxes superior to or on a parity with the lien of the Bonds so long as the Authority Bonds or any portion thereof are Outstanding (as such term is defined in the Authority Indenture). Nothing in the Agreement shall, however, prevent the Community Facilities District, following the defeasance or redemption of the Authority Bonds in full, from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Special Taxes on a parity with the Outstanding Bonds provided that the debt service on the remaining Outstanding Bonds and the refunding bonds or other refunding obligations in each Bond Year after such refunding shall be equal to or less than debt service on the Outstanding Bonds in each Bond Year preceding such refunding.

Books and Records. The Community Facilities District will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Community Facilities District, in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Bond Fund and the Special Tax Fund and relating to the Special Tax Revenues.

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

Collection of Special Tax Revenues. The Community Facilities District shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

On or about July 10 of each year, the Treasurer shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The Treasurer shall effect the levy of the Special Taxes each Fiscal Year on the parcels within the Improvement Area in accordance with the RMA, such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the Improvement Area for inclusion on the next secured tax roll. Upon the completion of the computation of the amounts of the levy, the Treasurer shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next secured tax roll. The Special Taxes so levied shall be payable and be collected in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property, unless otherwise provided by the Community Facilities District.

In the event that the Treasurer determines to levy all or a portion of the Special Taxes by means of direct billing of the property owners of the parcels within the Improvement Area, the Treasurer shall, not less than sixty (60) days prior to each Interest Payment Date, send bills to the owners of such real property located within the
Improvement Area subject to the levy of the Special Taxes for Special Taxes in an aggregate amount necessary to meet the financial obligations of the Community Facilities District with respect to the Improvement Area due on the next Interest Payment Date, said bills to specify that the amounts so levied shall be due and payable not less than thirty (30) days prior to such Interest Payment Date and shall be delinquent if not paid when due.

In any event, the Treasurer shall fix and levy the amount of Special Taxes within the Improvement Area required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing year, an amount necessary to replenish the Reserve Fund and an amount estimated to be sufficient to pay the Administrative Expenses during such year, all in accordance with the RMA. The Special Taxes so levied shall not exceed the authorized amounts as provided in the RMA.

The Treasurer is authorized to employ consultants to assist in computing the levy of the Special Taxes under the Fiscal Agent Agreement and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Treasurer (including a charge for City or Community Facilities District staff time) in conducting its duties under the Fiscal Agent Agreement shall be an Administrative Expense under the Fiscal Agent Agreement.

Tax Covenants. The Community Facilities District shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the Bonds which if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused any of the Authority Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code or to be "private activity bonds" within the meaning of Section 141 of the Tax Code.

The Community Facilities District agrees to furnish all information to, and cooperate fully with, the Authority, the Authority Trustee and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of the Authority Indenture. In the event that the Authority shall notify the Community Facilities District that the Authority has determined, pursuant to the Authority Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Authority Trustee has on deposit an amount of available moneys to make such payment, the Community Facilities District shall promptly direct the Fiscal Agent pay to the Authority Trustee from available Special Tax Revenues the Proportionate Share of the amounts determined by the Authority to be due and payable to the United States of America.

Covenant to Foreclose. The Community Facilities District covenants for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner where the aggregate delinquent Special Taxes on such parcels is greater than $5,000 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 for such Fiscal Year; and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding (i) and (ii) above, 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 for a period of five years or more or in an amount in excess of $10,000 so long as (1) the amount in the Reserve Fund is at least equal to the Reserve Requirement (as defined in the Authority Indenture); and (2) with respect to the Bonds, the Community Facilities District, acting on behalf of the Improvement Area, is not in default in the payment of the principal of or interest on the Bonds.

The City Attorney is authorized to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel and costs and expenses of the City Attorney (including a charge for City or Community Facilities District staff time) in conducting foreclosure proceedings shall be an Administrative Expense under the Fiscal Agent Agreement.

Notwithstanding any provision of the Act or other law of the State to the contrary, in connection with any foreclosure related to delinquent Special Taxes:
A. The City is expressly authorized to credit bid at any foreclosure sale, without any requirement that funds be placed in the Bond Fund or otherwise be set aside in the amount of such credit bid, in the amount specified in Section 53356.5 of the Act or such lesser amount as determined under B. below or otherwise under Section 53356.6 of the Act.

B. The City may permit property with delinquent Special Tax payments to be sold for less than the amount specified in Section 53356.5 of the Act, if it determines that such sale is in the interest of the Bond Owners. The Bond Owners, by their acceptance of the Bonds, consent to such sale for such lesser amounts (as such consent is described in Section 53356.6 of the Act), and release the City, its officers and its agents from any liability in connection therewith.

C. The City is expressly authorized to use amounts in the Administrative Expense Fund to pay costs of foreclosure of delinquent Special Taxes.

D. The City may forgive all or any portion of the Special Taxes levied or to be levied on any parcel in the Improvement Area, so long as the City determines that such forgiveness is not expected to adversely affect its obligation to pay principal of and interest on the Bonds.

Annual Reports to CDIAC. Not later than October 30 of each year, commencing October 30, 2012, and until the October 30 following the final maturity of the Bonds, the Treasurer shall supply the information required by Section 53359.5(b) or (c) of the Act to CDIAC (on such forms as CDIAC may specify) and the Community Facilities District.

Covenant to Defend. The Community Facilities District covenants, in the event that any initiative is adopted by the qualified electors in the Improvement Area which purports to reduce the minimum or the maximum Special Tax below the levels specified in the Fiscal Agent Agreement or to limit the power of the Community Facilities District to levy the Special Taxes within the Improvement Area, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

Modification of Maximum Authorized Special Tax. The Community Facilities District, to the maximum extent that the law permits it to do so, covenants that no modification of the minimum or maximum authorized Special Tax shall be approved by the Community Facilities District nor shall the Community Facilities District take any other action which would (i) prohibit the Community Facilities District from levying the Special Tax within the Improvement Area in any Fiscal Year at such a rate as would generate Special Tax Revenues in such Fiscal Year at least equal to the Administrative Expense Requirement and 110% of Annual Debt Service on all Bonds then Outstanding; (ii) discontinue or cause the discontinuance of such levy; or (iii) permit the prepayment of the Special Tax except as permitted pursuant to the RMA.

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

Events of Default.

Events of Default. The following events shall be Events of Default:

A. Failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise.

B. Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

C. Failure by the Community Facilities District to observe and perform any of the other covenants, agreements, or conditions on its part in the Agreement or in the Bonds contained, if such failure shall have
continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Community Facilities District by the Fiscal Agent or the Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the Community Facilities District the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Community Facilities District within such 60-day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

D. Commencement by the Community Facilities District of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Remedies of Bond Owners. Subject to the provisions of Fiscal Agent Agreement, any Bond Owner shall have the right, for the equal benefit and protection of all Bond Owners similarly situated:

A. by mandamus, suit, action or proceeding, to compel the City and its officers, agents or employees to perform each and every term, provision and covenant contained in the Agreement and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by the Act;

B. by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners’ rights; or

C. upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the City and its officers and employees to account as if it and they were the trustees of an express trust.

Application of Special Taxes and Other Funds After Default. If an Event of Default shall occur and be continuing, all Special Taxes, including any penalties, costs, fees and other charges accruing under the Act, and any other funds then held or thereafter received by the Fiscal Agent under any of the provisions of the 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 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 Agreement, as follows:

First: To the payment to the Persons 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 Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons 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 Persons entitled thereto, without any discrimination or preference.

C. Any remaining funds shall be transferred by the Fiscal Agent to the Bond Fund.
**Absolute Obligation of the Community Facilities District.** Nothing in the Agreement or in the Bonds contained shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Fiscal Agent Agreement, but only out of the Special Tax Revenues and other moneys pledged in the Fiscal Agent Agreement therefor and received by the Community Facilities District or the Fiscal Agent, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

**Termination of Proceedings.** In case any proceedings taken by any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Owners, then in every such case the Community Facilities District, and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Fiscal Agent Agreement, severally and respectively, and all rights, remedies, powers and duties of the City, and the Bond Owners shall continue as though no such proceedings had been taken.

**Remedies Not Exclusive.** No remedy conferred upon or reserved to the Fiscal Agent or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Fiscal Agent Agreement or now or hereafter existing at law or in equity or otherwise.

**No Waiver of Default.** No delay or omission of any Owner of the Bonds to exercise any right or power arising upon the occurrence of 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 given by the Agreement to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

**Actions by Fiscal Agent as Attorney-in-Fact.** Any suit, action, or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Fiscal Agent Agreement may be brought by the Fiscal Agent for the equal benefit and protection of all Owners, and the Fiscal Agent is appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the Owners for the purpose of bringing any such suit, action, or proceeding and to do and perform any and all acts and things for and on behalf of the Owners as a class or classes, as may be necessary or advisable in the opinion of the Fiscal Agent as such attorney-in-fact.
APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon issuance of the Bonds, Best Best & Krieger LLP, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

Board of Directors
San Marcos Public Financing Authority
One Civic Center Drive
San Marcos, California

$13,820,000
San Marcos Public Financing Authority
Special Tax Revenue Refunding Bonds
Series 2012B (Superior Lien Bonds)

$4,240,000
San Marcos Public Financing Authority
Special Tax Revenue Refunding Bonds
Series 2012C (Subordinate Lien Bonds)

FINAL OPINION

Dear Ladies and Gentlemen:

We have acted as bond counsel to the San Marcos Public Financing Authority (the "Authority") in connection with the sale and delivery of the Authority's Special Tax Revenue Refunding Bonds, Series 2012B (Superior Lien Bonds) in the aggregate principal amount of $13,820,000 (the "Series 2012B Bonds") and the Authority's Special Tax Revenue Refunding Bonds, Series 2012C (Subordinate Lien Bonds) in the aggregate principal amount of $4,240,000 (the "Series 2012C Bonds" and, together with the Series 2012B Bonds, the "Bonds"). The Bonds are issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (Government Code Section 6584 and following), a resolution adopted by the Board of Directors of the Authority on May 22, 2012 (the "Resolution of Issuance"), and an Indenture of Trust, dated as of June 1, 2012 (the "Indenture"), and entered into by and between the Authority and Union Bank, N.A., as trustee. Capitalized terms used herein, but not defined herein, have the meanings ascribed to those terms in the Indenture.

The Bonds are special, limited obligations of the Authority. The Series 2012B Bonds are payable solely from and secured by a lien upon and pledge of the Revenues of the Authority and from certain other amounts on deposit in the funds and accounts created under the Indenture pledged to the Series 2012B Bonds. The Series 2012C Bonds are payable solely from and secured by a lien upon and pledge of the Subordinated Revenues of the Authority and from certain other amounts on deposit in the funds and accounts created under the Indenture pledged to the Series 2012C Bonds.

We have examined the Indenture, the Resolution of Issuance, the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications, documents and written opinions provided to us by persons believed to be responsible without undertaking to verify such facts by independent investigation. We have also assumed the genuineness of the signatures appearing upon such records, proceedings, certifications, documents and opinions.

We call attention to the fact that the rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, 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 in the State of California.

We have not been engaged to take, and have not undertaken, any responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).
Based upon our examination and subject to the foregoing, we are of the opinion, as of the date hereof, that:

1. The Authority is a joint powers authority duly organized and validly existing under the laws of the State of California and has duly and validly authorized all the acts undertaken by it in connection with the authorization, issuance, sale and delivery of the Bonds.

2. The Indenture has been duly entered into by the Authority and constitutes a legal, valid and binding limited obligation of the Authority enforceable in accordance with its terms.

3. The Indenture creates valid liens on the funds pledged by the Indenture for the security of and payment on the Series 2012B Bonds and the Series 2012C Bonds, as applicable.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the sources provided for in the Indenture.

5. Under existing statutes, regulations, rulings and court decisions, and assuming compliance by the Authority with the aforementioned covenants, the interest on the Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

6. Interest on the Bonds is exempt from State of California personal income tax.

The opinions expressed in paragraph 5. above as to the exclusion from gross income for federal income tax purposes of interest on the Bonds are subject to the condition that the Authority and the Community Facilities District comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the Community Facilities District each have covenanted to comply with all such requirements. Except as set forth in paragraph 5. above, we express no opinion as to any federal tax consequences related to the Bonds.

We are admitted to the practice of law only in the State of California and our opinions is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

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

Respectfully Submitted,

BEST BEST & KRIEGER LLP
APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

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

This Continuing Disclosure Agreement, dated as of June 1, 2012 (the “Disclosure Agreement”), is entered into by and between the City of San Marcos Community Facilities District 2002-01 (University Commons) (the “District”), for itself and as agent for the San Marcos Public Financing Authority (the “Issuer”), and Union Bank, N.A., as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the Issuer of its $18,060,000 San Marcos Public Financing Authority Special Tax Revenue Refunding Bonds, Series 2012B (Superior Lien Bonds) and Series 2012C (Subordinate Lien Bonds) (collectively, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2012 (the “Indenture”), by and between the Issuer and Union Bank, N.A., as trustee (the “Trustee”). The District and the Dissemination Agent hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District, acting as the agent of the Issuer, 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 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

- Annual Report. The term “Annual Report” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

- Beneficial Owner. The term “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.

- Disclosure Representative. The term “Disclosure Representative” means the City Manager or the Finance Director of the City of San Marcos, or their designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

- Dissemination Agent. “Dissemination Agent” means, initially, Union Bank, N.A., or any successor Dissemination Agent designated in writing by the District which has filed with the then-current Dissemination Agent a written acceptance of such designation.


- Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

- Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) or (b) of this Disclosure Agreement.


- Participating Underwriter. The term “Participating Underwriter” means the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.
**Rule.** The term “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 3. **Provision of Annual Reports.**

(a) The District shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than nine months after the end of the District and the Issuer’s Fiscal Year, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided, however, that the audited financial statements of the District and the Issuer, if any are prepared, may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any Fiscal Year longer than 12 calendar months. The District and the Issuer’s Fiscal Year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify EMMA, the Dissemination Agent and the Participating Underwriter of a change in the District or the Issuer’s Fiscal Year dates.

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

(c) If the District is the Dissemination Agent and the District is unable to provide to EMMA and the Participating Underwriter an Annual Report by the date required in subsection (a), the District shall send a notice to EMMA, the Participating Underwriter and the Dissemination Agent in the manner prescribed by the Municipal Securities Rulemaking Board. If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA and the Participating Underwriter by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA and the Participating Underwriter, in the form prescribed by the Municipal Securities Rulemaking Board.

(d) The Dissemination Agent, if other than the District, shall promptly after receipt of the Annual Report, file a report with the District and the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

Section 4. **Content of Annual Reports.** The Annual Report shall contain or include by reference to files available on EMMA the following:

(a) **Financial Statements.** The audited financial statements of the District and the Issuer, if any have been prepared, for the most recent Fiscal Year of the District and the Issuer then ended. If the audited financial statements are being prepared and are not available by the time that the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain any available unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the District and the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited financial statements, if prepared by the District and the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District or the Issuer shall modify the basis upon which its financial statements are prepared, the
District shall provide a notice of such modification to EMMA, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Financial and Operating Data.

(i) the principal amount of Bonds outstanding;

(ii) the balance in each fund under the Indenture and the Fiscal Agent Agreement, the Series B Reserve Requirement and the Series C Reserve Requirement;

(iii) an update of the information in Tables 7, 9, 10, 11, 17 and 18 in the Official Statement; provided, however, that the information in Tables 17 and 18 shall be updated only so long as the Improvement Area contains undeveloped property; and

(iv) a discussion of the status of any foreclosure proceedings commenced by the Community Facilities District with respect to delinquent special taxes in the Community Facilities District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District, the Issuer or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;

2. unscheduled draws on debt service reserves reflecting financial difficulties;

3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);

6. tender offers;

7. defeasances;

8. ratings changes; and

9. bankruptcy, insolvency, receivership or similar proceedings.

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

(b) Pursuant to the provisions of this Section 5, the 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. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the District determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the District, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

(d) If the District determines that the Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the District, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the District and, if the Dissemination Agent is other than the District, the Dissemination Agent shall not be responsible for determining whether the District’s instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. The obligations of the District and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5 hereof.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent appointed by the District may resign by providing thirty (30) days written notice to the District, and upon appointment of a new Dissemination Agent hereunder.
Section 8. Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the District, the Community Facilities District or the type of business conducted thereby; (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the District shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the same effect as set forth in clause (2) above; (4) the District shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners; and (5) the District shall have delivered copies of such opinion and amendment to the Participating Underwriter.

(b) This Disclosure Agreement also may be amended by written agreement of the parties upon obtaining consent of the Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(1), (2), (3) and (5) have been satisfied.

(c) To the extent that any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

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

Section 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys’ fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s negligence or willful misconduct. Any
Dissemination Agent other than the District shall be paid: (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Notices with respect to this Disclosure Agreement should be sent in writing to:

If to the District: City of San Marcos Community Facilities District 2002-01 (University Commons) c/o City of San Marcos One Civic Center Drive San Marcos, California 92069 Attention: Executive Director

If to the Dissemination Agent: Union Bank, N.A. Corporate Trust Services 120 South San Pedro Street, Fourth Floor Los Angeles, California 90012

If to the Participating Underwriter: Piper Jaffray & Co. 1100 South Coast Highway, Suite 300A Laguna Beach, California 92651

Section 14. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 15. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 17. Merger. Any person succeeding to all or substantially all of the Dissemination Agent’s corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.
IN WITNESS WHEREOF, the parties have caused their duly authorized officer to execute and deliver this Disclosure Agreement on the date first written above.

CITY OF SAN MARCOS COMMUNITY FACILITIES
DISTRICT 2002-01 (UNIVERSITY COMMONS)

By: 
Name: 
Title: 

UNION BANK, N.A., as Dissemination Agent

By: 
Name: 
Title: 
APPENDIX E

INFORMATION CONCERNING DTC

The information in this Appendix concerning DTC and DTC’s book-entry only system has been obtained from sources that the Authority, the Community Facilities District, the City and the Underwriter believe to be reliable, but none of the Authority, the Community Facilities District, the City or the Underwriter take any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTCC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

FIRST AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR IMPROVEMENT AREA NO. 1 OF COMMUNITY FACILITIES DISTRICT 2002-01 (UNIVERSITY COMMONS) OF THE CITY OF SAN MARCOS

A Special Tax shall be levied in Improvement Area 1 of Community Facilities District No. 2002-01 (University Commons) of the City of San Marcos (“IA 1”) each Fiscal Year, in an amount determined by the Council through the application of the procedures described below. All of the real property in IA 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. DEFINITIONS

The terms hereinafter set forth have the following meanings:

“Acres” 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 Subdivision. For Non-Residential Property Condominiums, the Acres applicable to each Condominium shall be determined by allocating the Acres of the underlying lot or parcel on which the Condominiums are or are to be constructed in proportion to each such Condominium’s building square footage as determined from the applicable building permit(s). An “Acre” means 43,560 square feet of land.


“Administrative Expenses” means actual or reasonably estimated necessary costs related to the administration of IA 1 including, but not limited to, the following: the costs of computing the Special Taxes; the costs of collecting the Special Taxes including the costs of monitoring and tracking delinquent Special Taxes; 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 compute rebatable arbitrage; the costs of the City, CFD No. 2002-01, or designee in complying with disclosure requirements of applicable federal and state securities laws and of the Act; the costs associated with responding to public inquiries regarding IA 1; costs of the City, CFD No. 2002-01, or designee related to an appeal of the Special Tax; the cost associated with the release of funds from an escrow account; and an allocable share of the salaries of the City staff relating to the foregoing. Administrative Expenses shall also include amounts estimated or advanced by the City for any other administrative purpose of IA 1, including attorney’s fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes or any other legal matters related to IA 1.

“Affordable Housing Property” means Dwelling Units that are required to be made available at an affordable cost to low and very low-income occupants pursuant to an agreement with the City.

“Annual Special Tax” means the special tax as determined in accordance with Section C.1 below.

“Apartment” means a Dwelling Unit of Attached Residential Property which is not a Condominium.

“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 County Assessor of the County designating parcels by Assessor’s Parcel number.
“**Association Property**” means any property in IA 1 owned by or dedicated to a property owner association, including any master or sub-association, exclusive of any property on which Condominiums are or will be constructed.

“**Attached Residential Property**” means Taxable Property on which attached Dwelling Units have been or may be constructed as determined from the applicable approved tentative map, tentative parcel map, multi-family site development plan, Final Subdivision, Land Use Plan, or Exhibit 1, whichever is most recent.

“**Bonds**” means any bonds or other indebtedness (as defined in the Act), whether in one or more series, secured by the Special Taxes of IA 1.

“**CFD Administrator**” means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of Special Taxes.

“**City**” means the City of San Marcos.

“**Condominium**” means a separate interest or unit meeting the statutory definition of a condominium contained in the California Civil Code, Section 1351, and for which a condominium plan has been recorded pursuant to California Civil Code, Section 1352.

“**Council**” means the City Council of the City, acting as the legislative body of CFD No. 2002-01.

“**County**” means the County of San Diego.

“**Detached Residential Property**” means Taxable Property on which detached Dwelling Units have been or may be constructed as determined from the applicable approved tentative map, tentative parcel map, Final Subdivision, Land Use Plan, or Exhibit 1, whichever is most recent.

“**Developed Property**” means, for each Fiscal Year, all Attached Residential Property, Detached Residential Property, and Non-Residential Property located within a Final Subdivision and for which a building permit for new construction was issued as of the March 1 preceding such Fiscal Year.

“**Dwelling Unit**” means a residential dwelling unit.

“**Final Subdivision**” means a subdivision of property by recordation of (i) a final map or parcel map approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.), (ii) lot line adjustment approved by the City, or (iii) a condominium plan pursuant to California Civil Code 1352 that creates an individual lot(s) for which a building permit(s) may be issued without further subdivision.

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

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

“**Land Use Plan**” means the land use plan set forth in the Specific Plan, as may be amended pursuant to the Specific Plan.

“**Maximum Special Tax**” means the maximum Special Tax, determined in accordance with Section C below, which can be levied in any Fiscal Year on each Assessor’s Parcel of Attached Residential Property, Detached Residential Property, and Non-Residential Property.
“Non-Residential Property” means all Taxable Property for which a building permit(s) for non-residential (i.e., commercial, industrial, institutional, light industrial, office professional, or other non-residential use permitted by the Specific Plan) construction has been or may be issued as determined from the applicable approved tentative map, tentative parcel map, Final Subdivision, Land Use Plan, or Exhibit I, whichever is most recent.

“One Time Special Tax” means the special tax as determined in accordance with Sections C.2 and E below.

“Open Space Property” means all property in IA 1 owned by, dedicated for, designated as open space and/or for resource conservation purposes by the land use entitlements or regulations of the City applicable to such property.

“Public Property” means all property in IA 1 owned by, dedicated to, or for which an easement for public purposes, which restricts the use of such property to that public purpose set forth in the easement, has been granted to the federal government, the State of California, the County, the City, or any local government or other public agency.

“Special Tax” means the special tax levied on each Assessor’s Parcel of Attached Residential Property, Detached Residential Property, and Non-Residential Property pursuant to Sections D and E.

“Special Tax Requirement” means that amount determined by the Council or its designee required in any Fiscal Year: (1) to pay the Administrative Expenses, (2) to pay debt service on outstanding Bonds payable in the calendar year which commences in the Fiscal Year, (3) to replenish and/or establish any reserve funds to and/or in an amount(s) established under the Indenture, (4) to pay the costs of remarketing, credit enhancement and liquidity facility fees (including such fees for instruments that serve as the basis of a reserve fund in lieu of cash related to any Bonds) and other periodic costs on the Bonds, (5) to pay for any delinquent Special Taxes or reasonably anticipated delinquent Special Taxes based on the delinquency rate for previously levied Special Taxes, (6) to pay directly for acquisition and/or construction of authorized facilities to the extent that the inclusion of such amount does not result in the levy of the Annual Special Tax on Undeveloped Property and less (7) available funds as directed under the Indenture.

“Specific Plan” means the Second Amendment to the University Commons Specific Plan City of San Marcos Ordinance 2002-1161, as amended.

“State” means the State of California.

“Taxable Property” means all property located in IA 1 which is not exempt from the Special Tax pursuant to Section H below.

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

“Undeveloped Property” means, for each Fiscal Year, all Attached Residential Property, Detached Residential Property, and Non-Residential Property not classified as Developed Property.

“Utility Property” means all Assessor’s Parcels in IA 1 encumbered by a public utility easement which prevents the development of such Assessor’s Parcel.

B. CLASSIFICATION OF PROPERTY

Each Fiscal Year, all Taxable Property shall be classified as Attached Residential Property, Detached Residential Property, or Non-Residential Property. Attached Residential Property, Detached Residential Property, and Non-Residential Property shall be further classified as Developed Property or Undeveloped
Property. The preceding classifications shall be made as of the March 1 preceding the Fiscal Year for which the Special Tax is being levied.

For purposes of determining the applicable Annual Special Tax, Detached Residential Property shall be assigned to special tax classifications one through three in Table 1 below based on the applicable minimum lot area. The minimum lot area applicable to Detached Residential Property shall be determined by reference to the Land Use Plan. Attached Residential Property, the Dwelling Units for which are or are expected to be Condominiums, shall be assigned to special tax classification four. Attached Residential Property, the Dwelling Units for which are or are expected to be Apartments, shall be assigned to special tax classification five. Prior to the approval of a multi-family site development plan or recordation of a Condominium plan, Exhibit 1 shall be used to determine if any such Dwelling Units are expected to be Condominiums. All Non-Residential Property shall be assigned to special tax classification six.

C. MAXIMUM SPECIAL TAX

The Maximum Special Tax for an Assessor’s Parcel of Attached Residential Property, Detached Residential Property, or Non-Residential Property shall be the sum of the applicable Annual Special Tax and One Time Special Tax, if any, determined pursuant to Sections C.1 and C.2 below.

1. Annual Special Tax

The Annual Special Tax rate applicable to each Assessor’s Parcel of Taxable Property shall be determined pursuant to Table 1 on the following page. If, as of the March 1 preceding the Fiscal Year for which the Special Taxes are being levied, an Assessor’s Parcel of Attached Residential Property, Detached Residential Property, or Non-Residential Property is not located in a Final Subdivision, then the Annual Special Tax applicable to such Assessor’s Parcel shall be determined by multiplying the expected number of Dwelling Units or Acres, as applicable, by the corresponding Annual Special Tax rate set forth in Table 1.

Similarly, if, as of the March 1 preceding the Fiscal Year for which the Special Taxes are being levied, building permits for all of the expected Dwelling Units for an Assessor’s Parcel of Attached Residential Property have not been issued, then the Annual Special Tax applicable to such Assessor’s Parcel shall be determined by multiplying the expected number of Dwelling Units, exclusive of any Dwelling Units of Affordable Housing Property, by the corresponding Annual Special Tax rate set forth in Table 1.

The expected number of Dwelling Units shall be determined by reference to the multi-family site development plan, Land Use Plan, or Exhibit 1, whichever is most recent and applicable. Prior to the approval of a multi-family site development plan or recordation of a Final Subdivision, as applicable, the expected number of Dwelling Units shall be allocated to an Assessor’s Parcel pro rata based on Acres. The expected number of Dwelling Units of Affordable Housing Property shall be allocated pro rata based on the total expected number of Apartments unless more specifically identified in an agreement with the City requiring such Affordable Housing Property. Prior to the recordation of a Final Subdivision, the expected Non-Residential Property Acres for a Specific Plan planning area, as set forth in Exhibit 1, shall be allocated to an Assessor’s Parcel pro rata based on Acres.
### TABLE 1

**ANNUAL SPECIAL TAX RATES**

<table>
<thead>
<tr>
<th>SPECIAL TAX CLASSIFICATION</th>
<th>PROPERTY CLASSIFICATION</th>
<th>MINIMUM LOT SIZE</th>
<th>ANNUAL SPECIAL TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Detached Residential Property</td>
<td>&gt; 5,750 SF</td>
<td>$2,725 per Dwelling Unit</td>
</tr>
<tr>
<td>2</td>
<td>Detached Residential Property</td>
<td>5,250 - 5,750 SF</td>
<td>$2,412 per Dwelling Unit</td>
</tr>
<tr>
<td>3</td>
<td>Detached Residential Property</td>
<td>&lt; 5,250 SF</td>
<td>$2,123 per Dwelling Unit</td>
</tr>
<tr>
<td>4</td>
<td>Attached Residential Property - Condominiums</td>
<td>Not Applicable</td>
<td>$1,533 per Dwelling Unit</td>
</tr>
<tr>
<td>5</td>
<td>Attached Residential Property - Apartments</td>
<td>Not Applicable</td>
<td>$1,070 per Dwelling Unit</td>
</tr>
<tr>
<td>6</td>
<td>Non-Residential Property</td>
<td>Not Applicable</td>
<td>$9,388 per Acre</td>
</tr>
</tbody>
</table>

#### a. Table 1 Amendments

Prior to the issuance of Bonds, the Annual Special Tax rates set forth in Table 1 may be reduced to the amount necessary to satisfy the maximum allowable overlapping debt burden requirement (as defined in Article VI of the Amended and Restated Community Facilities District Goals and Policies adopted pursuant to City Council Resolution No. 99-5207 (the “Goals and Policies”) if it is reasonably determined by the CFD Administrator that the overlapping debt burden calculated pursuant to the Goals and Policies exceeds the maximum level allowed.

#### 2. One Time Special Tax

Assessor’s Parcels of Taxable Property for which the amount of Annual Special Taxes that can be levied thereon by IA 1 will be reduced after approval of a (i) tentative map, tentative parcel map, multi-family site development plan, or Final Subdivision and/or (ii) revision to the Land Use Plan and/or Exhibit 1 may be subject to a One Time Special Tax in accordance with this Section C.2 and Section E. The amount of the One Time Special Tax levied against any Assessor’s Parcel will be equal to the prepayment amount corresponding to the reduction in Annual Special Taxes determined pursuant to Section D. The prepayment amount shall be computed in accordance with Section I.1 subject to the following modifications:

- The amount by which the Annual Special Taxes are less than the estimated Administrative Expenses and one hundred ten percent (110%) of the maximum annual debt service for the Bonds issued and outstanding shall be substituted for the term Annual Special Tax (i.e., the numerator) when computing Principal;
- The Unfunded Facilities amount shall equal zero; and
- No credit for Annual Special Taxes heretofore paid, but unutilized, shall be given.

Note, the One Time Special Tax shall not apply until after the issuance of Bonds.

#### 3. Exhibit 1 Amendments

Subject to review and approval by the CFD Administrator, Exhibit 1 may be amended from time to time in accordance with and subject to the following procedures and conditions. Exhibit 1 may only be amended if the CFD Administrator has determined that (i) there are no delinquent Special Taxes with respect to the Assessor’s Parcel(s) to which the amendment applies and all other Assessor’s Parcels which are under
the same ownership and located within IA 1, (ii) any One Time Special Tax levy resulting from the amendment has been paid, and (iii) the expected Annual Special Taxes for IA 1 computed pursuant to the amended Exhibit 1 shall equal at a minimum the sum of the estimated Administrative Expenses and one hundred and ten percent (110%) of the maximum annual debt service for the Bonds issued and outstanding, taking into consideration any One Time Special Taxes paid in connection with the amendment.

Any amendment to Exhibit 1 shall be effective in the Fiscal Year following the execution of a certificate, the form of which is attached as Exhibit 3, and the recordation of an amended notice of special tax lien, with the amended Exhibit 1 attached, against the Assessor’s Parcel(s) to which the amendment applies.

D. **LEVY OF ANNUAL SPECIAL TAX**

Commencing with Fiscal Year 2004-2005 and for each following Fiscal Year, the CFD Administrator shall apportion and levy the Annual Special Tax as set forth below until the amount of Annual Special Taxes equals the Special Tax Requirement. Unless otherwise determined by the Council, the Annual Special Taxes levied to fund the Special Tax Requirement shall be billed and collected by the County in the same manner and at the same time as general ad valorem property taxes.

**First:** The Annual Special Tax shall be levied proportionately on each Assessor’s Parcel of Developed Property at up to 100% of the applicable Annual Special Tax to satisfy the Special Tax Requirement; and

**Second:** If additional monies are needed to satisfy the Special Tax Requirement, the Annual Special Tax shall be levied proportionately on each Assessor’s Parcel of Undeveloped Property at up to 100% of the applicable Annual Special Tax.

Notwithstanding the above, under no circumstances will the Annual Special Tax levied against any Assessor’s Parcel of Developed Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent per Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor’s Parcel within IA 1.

E. **LEVY OF ONE TIME SPECIAL TAX**

Each tentative map, tentative parcel map, multi-family site development plan, Final Subdivision, and revision to the Land Use Plan and/or Exhibit 1 shall be submitted to the CFD Administrator for review, and its approval shall at a minimum be contingent upon the receipt of a certificate executed by the CFD Administrator, the form of which is attached as Exhibit 4, regarding the amount of the One Time Special Tax, if any, required to be levied in connection therewith. A One Time Special Tax shall be levied if the amount of Annual Special Taxes which can be levied by IA 1 after approval of such tentative map, tentative parcel map, multi-family site development plan, Final Subdivision, or revision to the Land Use Plan and/or Exhibit 1 will be less than the estimated Administrative Expenses and one hundred ten percent (110%) of the maximum annual debt service for the Bonds issued and outstanding.

The One Time Special Tax shall be levied against the Assessor’s Parcel(s) on which the reduction has or will occur, pro rata on the basis of Acres. Payment of the One Time Special Tax shall not reduce the Annual Special Tax applicable to any Assessor’s Parcel.

The City shall not approve any tentative map, tentative parcel map, multi-family site development plan, or Final Subdivision nor issue any building permits for property to which the One Time Special Tax applies until the applicable One Time Special Tax has been collected.

F. **MANNER OF COLLECTION**

The Annual Special Tax and the One Time Special Tax shall constitute a continuing lien on the property subject thereto which shall have priority co-equal to the lien of general ad valorem property taxes.
The Annual Special Tax will be billed and collected by the County in the same manner and at the same time as general ad valorem property taxes. The One Time Special Tax shall be billed to and collected directly from the owner(s) of the property to which it applies. The payment of the One Time Special Tax shall be delinquent if not received by the City on behalf of CFD No. 2002-01 on or before the date such payment is due as specified in such billing. The lien and foreclosure remedies provided for in the Indenture shall apply upon the nonpayment of either the Annual Special Tax or One Time Special Tax. Notwithstanding, the Council may provide for other means of collecting the Annual Special Tax and One Time Special Tax, if necessary to meet the financial obligations of IA 1.

G. TERM OF SPECIAL TAX

The Special Tax shall not be levied after Fiscal Year 2044-2045. Notwithstanding, the Special Tax shall not be levied after all interest and principal on the Bonds has been paid, provided that (i) all the authorized Bonds have been issued and/or (ii) CFD No. 2002-01 has covenanted not to issue any more Bonds, other than refunding bonds.

H. EXEMPTIONS

Property exempt from the Annual Special Tax is as follows:

- Affordable Housing Property;
- Association Property;
- Open Space Property;
- Public Property, exclusive of Attached Residential Property, Detached Residential Property, and Non-Residential Property; and
- Utility Property

Note, however, Affordable Housing Property, Association Property, Open Space Property, Public Property, and Utility Property may be subject to levy of the One Time Special Tax pursuant to Sections C and E above.

I. PREPAYMENT OF SPECIAL TAX

The Annual Special Tax for any Assessor’s Parcel may be prepaid and permanently satisfied or prepaid in part, as described herein, provided that a prepayment may be made only if at the time of the prepayment there are no delinquent Special Taxes with respect to such Assessor’s Parcel and all other Assessor’s Parcels which are under the same ownership and located within IA 1. An owner of an Assessor’s Parcel intending to prepay the Annual Special Tax shall provide the CFD Administrator with written notice of intent to prepay. Within 60 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor’s Parcel and the date through which the amount any such prepayment shall be valid.

1. Prepayment in Full

Prior to the sale of any Bonds, the “Prepayment” for an Assessor’s Parcel shall be equal to the Unfunded Facilities as defined below. Following the sale of Bonds, the Prepayment for an Assessor’s Parcel shall be an amount equal to the sum of (1) Principal, (2) Premium, (3) Defeasance, (4) Fees, and (5) Unfunded Facilities minus the Reserve Fund Credit, where the terms “Principal,” “Premium,” “Defeasance,” “Fees,” “Unfunded Facilities,” and “Reserve Fund Credit,” have the following meanings:
“Principal” means the principal amount of Bonds to be redeemed from the proceeds of such Prepayment and equals the quotient derived by dividing (a) the applicable Annual Special Tax for the applicable Assessor’s Parcel by (b) the expected aggregate Annual Special Taxes for IA 1 as determined by the CFD Administrator (and excluding from (b) any Annual Special Taxes for IA 1 which have been prepaid), and multiplying the quotient by the principal amount of Bonds outstanding.

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

“Defeasance” means the amount needed to pay interest on the Principal to be redeemed until the earliest redemption date as determined by the CFD Administrator for the outstanding Bonds. Credit shall also be given for any Special Tax heretofore paid and which will not be needed for purposes of funding the current Fiscal Year’s Special Tax Requirement.

“Fees” equal the fees and expenses of CFD No. 2002-01 related to the Prepayment.

“Unfunded Facilities” means an amount equal to the estimated cost of the unfunded public facilities allocable to the Assessor’s Parcel for which the Prepayment is being calculated and is computed by multiplying the quotient calculated when determining Principal by $18,100,000, less the estimated cost of any public improvements previously financed by Bonds. Unfunded Facilities shall equal zero following the issuance of all of the Bonds (i.e., all the authorized Bonds have been issued and/or CFD No. 2002-01 has covenanted not to issue any more Bonds, other than refunding bonds).

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

The sum of the amounts calculated in the preceding steps shall be paid to CFD No. 2002-01 and shall be used to pay and redeem Bonds in accordance with the Indenture and to pay the Fees. Upon receipt of such Prepayment by CFD No. 2002-01, the obligation to pay the Annual Special Tax for such Assessor’s Parcel shall be deemed to be permanently satisfied, the Annual Special Tax shall not be levied thereafter on such Assessor’s Parcel, and the CFD Administrator shall cause a notice of cancellation of the Annual Special Tax for such Assessor’s Parcel to be recorded within 30 working days of the redemption of Bonds from the proceeds of the Prepayment.

2. **Prepayment in Part**

   The amount of any partial prepayment of the Annual Special Tax shall be computed pursuant to Section I.1 above by substituting the portion of the Annual Special Tax to be prepaid for the Annual Special Tax applicable to the Assessor’s Parcel when computing Principal. The CFD Administrator shall cause a notice of reduction of the Annual Special Tax for such Assessor’s Parcel to be recorded within 30 working days of the redemption of Bonds from the proceeds of the partial prepayment.

   Notwithstanding the foregoing, no prepayment shall be allowed unless the amount of Annual Special Taxes that may be levied in IA 1 after the proposed prepayment is at least the sum of (i) the estimated Administrative Expenses and (ii) one hundred ten percent (110%) of the maximum annual debt service for the Bonds, taking into account the Bonds to remain outstanding after such prepayment.
**EXHIBIT 1**
**EXPECTED ATTACHED RESIDENTIAL PROPERTY**
**EXPECTED ACRES OF NON-RESIDENTIAL PROPERTY**

<table>
<thead>
<tr>
<th>University Commons Specific Plan Amendment</th>
<th>PLANNING AREA</th>
<th>LAND USE</th>
<th>EXPECTED DWELLING UNITS</th>
<th>EXPECTED ACRES OF NON-RESIDENTIAL PROPERTY</th>
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<tbody>
<tr>
<td>Third</td>
<td>1</td>
<td>Multi-Family (Attached Residential Property – Condominium)</td>
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<td>120</td>
<td>NA</td>
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</table>
EXHIBIT 2

CERTIFICATE TO AMEND TABLE 1
CERTIFICATE TO AMEND TABLE 1
OF THE RATE AND METHOD OF APPORTIONMENT
OF SPECIAL TAX
COMMUNITY FACILITIES DISTRICT NO. 2002-01
(UNIVERSITY COMMONS)
IMPROVEMENT AREA 1
OF THE CITY OF SAN MARCOS

The undersigned, CFD Administrator for Community Facilities District No. 2002-01 (University Commons) of the City of San Marcos hereby modifies Table 1 of the Rate and Method of Apportionment of Special Tax (the “RMA”) for Improvement Area 1 of Community Facilities District No. 2002-01 (“University Commons”) of the City of San Marcos:

The revised Table 1 is attached hereto.

By execution hereof, the undersigned acknowledges, on behalf of the Improvement Area 1 of Community Facilities District No. 2002-01 receipt of this Certificate and modification of Table 1 of the RMA as set forth in this certificate.

CFD ADMINISTRATOR

By: ________________________________
Administrator Signature

______________________________
Printed Name

______________________________
Date
EXHIBIT 3

CERTIFICATE TO AMEND EXHIBIT 1
CERTIFICATE TO AMEND EXHIBIT 1
OF THE RATE AND METHOD OF APPORTIONMENT
OF SPECIAL TAX
COMMUNITY FACILITIES DISTRICT NO. 2002-01
(UNIVERSITY COMMONS)
IMPROVEMENT AREA 1
OF THE CITY OF SAN MARCOS

The undersigned, CFD Administrator for Community Facilities District No. 2002-01 (University Commons) of the City of San Marcos hereby modifies Exhibit 1 of the Rate and Method of Apportionment of Special Tax (the “RMA”) for Improvement Area 1 of Community Facilities District No. 2002-01 (“University Commons”) of the City of San Marcos:

The revised Exhibit 1 is attached hereto.

By execution hereof, the undersigned acknowledges, on behalf of the Improvement Area 1 of Community Facilities District No. 2002-01 receipt of this Certificate and modification of Exhibit 1 of the RMA as set forth in this certificate.

CFD ADMINISTRATOR

By: ________________________________  ________________________________
   Administrator Signature                 Printed Name

____________________________
Date
EXHIBIT 4

CERTIFICATE AS TO ONE TIME SPECIAL TAX
CERTIFICATE AS TO ONE TIME SPECIAL TAX
COMMUNITY FACILITIES DISTRICT NO. 2002-01
(UNIVERSITY COMMONS)
IMPROVEMENT AREA 1
OF THE CITY OF SAN MARCOS

The undersigned, CFD Administrator for Community Facilities District No. 2002-01 (University Commons) of the City of San Marcos hereby determines that the amount of the One Time Special Tax and the Assessor’s Parcels to which such One Time Special Tax is applicable is as follows:

By execution hereof, the undersigned acknowledges, on behalf of the Improvement Area 1 of Community Facilities District No. 2002-01 receipt of this Certificate and that the applicable One Time Special Tax is as stated above.

CFD ADMINISTRATOR

By: ____________________________  ____________________________
    Administrator Signature  Printed Name

______________________________
Date