

**NEW ISSUE**

**RATINGS:**

Insured Bond Rating: S&P: "AA"  
Underlying Rating: S&P: "BBB+"  
See "RATINGS" herein

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2015 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. However, Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the 2015 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015 Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.



**\$87,480,000**  
**COMMUNITY FACILITIES DISTRICT NO. 98-2 OF THE**  
**CAPISTRANO UNIFIED SCHOOL DISTRICT**  
**(LADERA)**  
**2015 SUBORDINATE SPECIAL TAX REFUNDING BONDS**

**Dated: Date of Delivery**

**Due: September 1, as shown below**

The above captioned bonds (the "2015 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and the Bond Indenture, dated as of July 1, 2015 (the "Indenture"), by and between Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) (the "Community Facilities District") and U.S. Bank National Association, as trustee (the "Trustee"). The 2015 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within the Community Facilities District according to the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the Community Facilities District and by the Board of Trustees of the Capistrano Unified School District (the "School District"), acting as the legislative body of the Community Facilities District.

The 2015 Bonds are being issued (i) to refund the Community Facilities District's 2005 Special Tax Refunding Bonds that are current interest bonds, (ii) to fund a reserve account for the 2015 Bonds by means of the purchase of a Reserve Policy (as defined herein), and (iii) to pay the costs of issuing the 2015 Bonds. Following the issuance of the 2015 Bonds, \$16,692,146 accreted value (as of September 1, 2015) of the 2005 Special Tax Bonds that are capital appreciation bonds (with a maturity value of \$39,820,000) will remain outstanding, which bonds will be secured by the Special Taxes (as described herein) on a basis that is senior to the use of Special Taxes to pay the debt service on the 2015 Bonds. See "INTRODUCTION—Purpose of the 2015 Bonds; Senior Bonds" herein.

Interest on the 2015 Bonds is payable on March 1, 2016, and semiannually thereafter on each March 1 and September 1. The 2015 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2015 Bonds, when delivered, will be initially 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 2015 Bonds as described herein under "THE 2015 BONDS – Book-Entry and DTC."

The 2015 Bonds are subject to optional redemption as described herein. See "THE 2015 BONDS – Redemption."

The scheduled payment of principal of and interest on the 2015 Bonds maturing on September 1 in each year from and after September 1, 2018 (collectively, the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the issuance of the Insured Bonds by Build America Mutual Assurance Company. The scheduled payment of principal and of interest on the 2015 Bonds maturing on September 1, 2016 and September 1, 2017 will not be insured.



THE 2015 BONDS AND THE INTEREST THEREON ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NONE OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED IN THIS OFFICIAL STATEMENT), THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2015 BONDS. OTHER THAN THE NET TAXES (AS DEFINED IN THE INDENTURE), NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2015 BONDS. THE 2015 BONDS ARE NOT GENERAL OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET TAXES AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE, AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the 2015 Bonds. Investment in the 2015 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of certain risk factors that should be considered in evaluating the investment quality of the 2015 Bonds.

**MATURITY SCHEDULE**  
(See Inside Cover)

The 2015 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the Community Facilities District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Special Counsel, and by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel. It is anticipated that the 2015 Bonds, in book-entry form, will be available for delivery to DTC in New York, New York on or about July 30, 2015.

This Official Statement is dated: July 16, 2015

## MATURITY SCHEDULE

**\$87,480,000**

**COMMUNITY FACILITIES DISTRICT NO. 98-2 OF THE  
CAPISTRANO UNIFIED SCHOOL DISTRICT  
(LADERA)**

**2015 SUBORDINATE SPECIAL TAX REFUNDING BONDS**

Maturity (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP No.†
2016	\$3,400,000	5.000%	0.750%	104.587	139705 MB0
2017	4,030,000	5.000	1.100	108.020	139705 MC8
2018*	4,390,000	5.000	1.520	110.451	139705 MD6
2019*	4,760,000	5.000	1.770	112.676	139705 ME4
2020*	5,160,000	5.000	1.930	112.005 c	139705 MF1
2021*	5,575,000	5.000	2.190	110.924 c	139705 MG9
2022*	6,020,000	4.000	2.600	105.392 c	139705 MH7
2023*	6,435,000	4.000	2.780	104.679 c	139705 MJ3
2024*	6,860,000	4.000	2.950	104.012 c	139705 MK0
2025*	7,320,000	3.000	3.175	98.500	139705 ML8
2026*	7,715,000	3.125	3.342	98.000	139705 MM6
2027*	8,140,000	3.250	3.454	98.000	139705 MN4
2028*	8,590,000	3.500	3.596	99.000	139705 MP9
2029*	9,085,000	4.000	3.510	101.847 c	139705 MQ7

c Priced to the first optional call date of September 1, 2019 at par .

\* Insured maturities. See "INTRODUCTION-Municipal Bond Insurance Policy; Reserve Policy."

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Community Facilities District nor the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CAPISTRANO UNIFIED SCHOOL DISTRICT**

**SCHOOL DISTRICT BOARD OF TRUSTEES**

Lynn Hatton-Hodson, President  
Amy Hanacek, Vice President  
Martha McNicholas, Clerk  
John M. Alpay, Trustee  
Gila Jones, Trustee  
Dr. Gary Pritchard, Trustee  
Jim Reardon, Trustee

**SCHOOL DISTRICT ADMINISTRATION**

Kirsten M. Vital, Superintendent  
Clark Hampton, Deputy Superintendent, Business & Support Services  
Capistrano Unified School District  
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**FINANCIAL ADVISOR and DISSEMINATION AGENT**

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Sacramento, California 95814

**SPECIAL TAX CONSULTANT**

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Newport Beach, California 92660

**TRUSTEE and ESCROW BANK**

U.S. Bank National Association  
633 West Fifth Street, 24th Floor  
Los Angeles, CA 90071

**VERIFICATION AGENT**

American Municipal Tax-Exempt Compliance Corporation  
90 Avon Meadow Lane  
Avon, Connecticut

## GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT

THIS OFFICIAL STATEMENT IS SUBMITTED WITH RESPECT TO THE SALE OF THE 2015 BONDS REFERRED TO HEREIN AND MAY NOT BE REPRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2015 BONDS.

THE 2015 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, IN RELIANCE UPON EXCEPTIONS THEREIN FOR THE ISSUANCE AND SALE OF MUNICIPAL SECURITIES. THE 2015 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAW OF ANY STATE.

THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL NOR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE 2015 BONDS BY A PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE AN OFFER, SOLICITATION OR SALE.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE COMMUNITY FACILITIES DISTRICT TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS WITH RESPECT TO THE 2015 BONDS OTHER THAN THOSE CONTAINED HEREIN, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMMUNITY FACILITIES DISTRICT.

THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE COMMUNITY FACILITIES DISTRICT AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMMUNITY FACILITIES DISTRICT OR SCHOOL DISTRICT SINCE THE DATE HEREOF.

ALL SUMMARIES OF THE DOCUMENTS REFERRED TO IN THIS OFFICIAL STATEMENT ARE QUALIFIED BY THE PROVISIONS OF THE RESPECTIVE DOCUMENTS SUMMARIZED AND DO NOT PURPORT TO BE COMPLETE STATEMENTS OF ANY OR ALL OF SUCH PROVISIONS.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES UNDER FEDERAL SECURITIES LAWS, AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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 TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "ESTIMATE," "PROJECT," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE COMMUNITY FACILITIES DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2015 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM") MAKES NO REPRESENTATION REGARDING THE 2015 BONDS OR THE ADVISABILITY OF INVESTING IN THE 2015 BONDS. IN ADDITION, BAM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION SUPPLIED BY BAM AND PRESENTED UNDER THE HEADING "MUNICIPAL BOND INSURANCE" AND APPENDIX G-SPECIMIN MUNICIPAL BOND INSURANCE POLICY.

THE SCHOOL DISTRICT MAINTAINS AN INTERNET WEBSITE, BUT THE INFORMATION ON THE WEBSITE IS NOT INCORPORATED IN THIS OFFICIAL STATEMENT.

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## OFFICIAL STATEMENT

**\$87,480,000**  
**COMMUNITY FACILITIES DISTRICT NO. 98-2 OF THE**  
**CAPISTRANO UNIFIED SCHOOL DISTRICT**  
**(LADERA)**  
**2015 SUBORDINATE SPECIAL TAX REFUNDING BONDS**

### INTRODUCTION

#### General

The purpose of this Official Statement is to provide certain information concerning the sale and delivery of an issue of bonds designated as the Community Facilities District No. 98-2 of the Capistrano Unified School District 2015 Special Tax Refunding Bonds (the "2015 Bonds").

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement by persons interested in investing in the 2015 Bonds. The offering of the 2015 Bonds to potential investors is made only by means of the entire Official Statement.

The 2015 Bonds are issued pursuant to the Act (as defined below) and the Bond Indenture, dated as of July 1, 2015 (the "Indenture"), by and between Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) (the "Community Facilities District") and U.S. Bank National Association, as trustee (the "Trustee"). See "THE 2015 BONDS – Authority for Issuance" herein. Capitalized terms used but not defined in this Official Statement have the meanings given to them in the Indenture. See Appendix C – Summary of Certain Provisions of the Indenture.

#### The School District

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

The School District provides kindergarten through 12<sup>th</sup> grade public education to more than 49,000 students on 55 campuses.

The 2015 Bonds are not an indebtedness of the School District, and it has no obligations with respect to the 2015 Bonds or the Indenture. See "SECURITY FOR THE 2015 BONDS – Limited Obligation."

The June 30, 2014 Annual Financial Report of the School District, which includes its audited financial statements for its fiscal year ending June 30, 2014, can be accessed at the following internet site: <http://emma.msrb.org/ER818515-ER637225-ER1038851.pdf>. Please note, however, that the foregoing link to the Annual Financial Report of the School District is

provided solely to comply with the Securities Exchange Commission staff's interpretation of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. No funds or assets of the School District are pledged, or otherwise required to be used, to pay the debt service on the 2015 Bonds. Investors should not rely on the financial condition of the School District in evaluating whether to buy, hold or sell the 2015 Bonds.

### **The Community Facilities District**

The Community Facilities District is a community facilities district first formed by the Board in February of 1999 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 et seq. of the State Government Code (the "Act"). Pursuant to the Act, the seven members of the Board serve as the legislative body of the Community Facilities District (the "Legislative Body") by virtue of their election to the Board.

The Community Facilities District is located in the southeast portion of the County, of which approximately 931 acres are expected to be subject to the Special Tax at buildout. The Community Facilities District is within the approximately 4,000-acre master planned community of Ladera Ranch ("Ladera Ranch").

Based on the development status of the property in the Community Facilities District as of January 1, 2015, and property ownership information as of January 1, 2014, there were 6,648 parcels of property in the Community Facilities District that were owned by individual homeowners, 23 parcels owned by Warmington Legacy (all of which have building permits for single family homes), 3 parcels owned by William Lyon Homes (all of which have building permits for single family homes), 6 parcels on which multifamily rental housing facilities with a total of 1,290 apartment units have been constructed, 50 parcels improved with non-residential facilities, and 99 parcels that had not yet been developed. As of January 1, 2014 the net County assessed value of the property in the Community Facilities District subject to the levy of Special Taxes was \$4,793,982,273.

Approximately 1,600 acres of the Community Facilities District have been set-aside as open space, which property is not subject to the levy of Special Taxes. In addition, 265 acres of public property (including streets and public parks), 6 acres of religious property and approximately 927 acres of property that is owned by a property owners' homeowners association (including private streets and open space) are exempt from payment of Special Taxes. See "THE COMMUNITY FACILITIES DISTRICT – General Information."

### **District Proceedings; Authority for Issuance**

Pursuant to the Act, the Legislative Body adopted resolutions on September 14, 1998 expressing its intention to form the Community Facilities District and to incur bonded indebtedness of the District. On February 8, 1999, at a special election held pursuant to the Act, the then owner of the land in the Community Facilities District voted to authorize the Community Facilities District to incur up to \$115,000,000 principal amount of special tax bonds for the purpose of financing school facilities and public improvements for the Santa Margarita Water District (collectively, the "Facilities"), and approved the levy of special taxes on certain real property in the Community Facilities District (the "Special Taxes") pursuant to the Rate and Method of Apportionment of Special Taxes for the Capistrano Unified School District Community Facilities District No. 98-2 (Ladera) (the "Original Rate and Method"). The Legislative Body conducted proceedings to alter the Original Rate and Method in June of 1999, and at that time approved an Amended Rate and Method of Apportionment of Special Taxes of Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) (referred to in this Official Statement as the "Rate and Method"). See "THE COMMUNITY



FACILITIES DISTRICT – History of the Community Facilities District.” A complete copy of the Rate and Method is included in Appendix B.

On April 14, 1999, the Community Facilities District issued \$105,330,000 of its Series 1999 Special Tax Bonds (the “1999 Bonds”), the net proceeds of which were used to finance some of the Facilities, and on April 28, 2005, the Community Facilities District issued \$119,099,490.60 of its Series 2005 Special Tax Bonds (the “2005 Bonds”) the net proceeds of which were used to refund 1999 Bonds in whole and to provide additional financing for Facilities eligible to be funded by the Community Facilities District. At the time they were issued, the 2005 Bonds included \$109,430,000 initial principal amount of current interest bonds (referred to in this Official Statement as the “Refunded Bonds”), and \$9,669,490.60 initial amount (\$39,820,000 maturity amount) of capital appreciation bonds (referred to in this Official Statement as the “Senior Bonds”).

The 2015 Bonds are now being issued pursuant to a resolution adopted by the Legislative Body on June 24, 2015 (the “Resolution”), the Act and the Bond Indenture.

### **Purpose of the 2015 Bonds; Senior Bonds**

Proceeds of the 2015 Bonds, together with other available moneys, will be used (i) to currently refund and legally defease the Refunded Bonds, of which \$88,990,000 principal amount is currently outstanding; (ii) to fund a reserve account for the 2015 Bonds by means of the purchase of a Reserve Policy (defined below) issued by Build America Mutual Assurance Company (“BAM”); and (iii) to pay the costs of issuing the 2015 Bonds. See “PLAN OF REFUNDING” herein.

The Special Taxes will be used each fiscal year first to satisfy the Community Facilities District’s obligations under the Bond Indenture, dated as of April 1, 2005 (as amended by a First Supplemental Bond Indenture, dated as of July 1, 2015, the “2005 Indenture”), between the Community Facilities District and U.S. Bank National Association, as fiscal agent (the “2005 Fiscal Agent”), pursuant to which the 2005 Bonds were issued (including the payment, at their respective maturities, of the Senior Bonds), before any Special Taxes will be available for purposes of the Indenture (including payment of the scheduled debt service on the 2015 Bonds). See “SECURITY FOR THE 2015 BONDS – General.”

The Senior Bonds are capital appreciation bonds that mature after the final maturity of the 2015 Bonds, so that the only annual financial obligation of the Community Facilities District under the 2005 Indenture prior to the final maturity of the 2015 Bonds is to fund annual Administrative Expenses up to the annual Administrative Expense Cap, as such terms are defined in the 2005 Indenture. See “SECURITY FOR THE 2015 BONDS – Senior Obligations.”

### **Sources of Payment for the 2015 Bonds**

*Special Taxes.* The 2015 Bonds are secured by a pledge of, and are payable from, the Net Taxes, which is subordinate to the pledge of Net Taxes under the 2005 Indenture for the Senior Bonds. The term “Net Taxes” is defined in the Indenture as Gross Taxes minus amounts set aside to pay the Administrative Expense Requirement. The term “Gross Taxes” is defined in the Indenture as the amount of all Special Taxes paid or required to be paid to the Trustee by the Community Facilities District or the 2005 Fiscal Agent in accordance with the 2005 Indenture. “Administrative Expenses” are defined in the Indenture as the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee and any Special Tax Consultant to the Community Facilities District, any costs related to the Community Facilities District’s compliance with state and federal laws requiring continuing disclosure of information

concerning the 2015 Bonds and the Community Facilities District, and any other costs otherwise incurred by the School District staff on behalf of the Community Facilities District in order to carry out the purposes of the Community Facilities District as set forth in the Resolution of Formation and any obligation of the Community Facilities District under the Indenture. See "SECURITY FOR THE 2015 BONDS – Special Taxes" herein.

The levy of the Special Taxes was authorized by the owner of land in the Community Facilities District, as the then qualified elector of the Community Facilities District, at a special election held within the Community Facilities District on February 8, 1999. A Notice of Special Tax Lien with respect to the Original Rate and Method was recorded in the Official Records of the County on February 23, 1999. The Rate and Method was authorized by the owner of the land in the Community Facilities District at a special election held within the Community Facilities District on June 28, 1999, and an Amendment No. 1 to Notice of Special Tax Lien was recorded in the Official Records of the County on June 29, 1999. The Rate and Method amended the Original Rate and Method to reduce certain back-up special tax and developed special tax rates. The first levy of the Special Taxes occurred in fiscal year 1999-2000.

The Community Facilities District will covenant in the Indenture to levy the Special Taxes in each Fiscal Year that the 2015 Bonds are outstanding. The Community Facilities District will also covenant in the Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE 2015 BONDS – Proceeds of Foreclosure Sales."

See "THE COMMUNITY FACILITIES DISTRICT – Special Tax Delinquency" for a table indicating Special Taxes levied and collected to date in the Community Facilities District. The Special Taxes are not subject to prepayment by homeowners. See "SECURITY FOR THE 2015 BONDS – Rate and Method."

The Rate and Method exempts from the Special Tax all property owned by the State, the federal government and local governments, as well as certain other properties, subject to certain limitations. See "SECURITY FOR THE 2015 BONDS – Rate and Method" and "BONDOWNERS' RISKS – Exempt Properties."

*Reserve Account.* The 2015 Bonds are also secured by a first pledge of all amounts deposited in the Reserve Account of the Special Tax Fund. See "SECURITY FOR THE 2015 BONDS." The Reserve Account of the Special Tax Fund will be funded initially by means of the Reserve Policy of BAM in an amount equal to the Reserve Requirement. The Indenture defines Reserve Requirement as that amount as of any date of calculation equal to the least of (i) 10% of the initial principal amount of the 2015 Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding 2015 Bonds and Parity Bonds, if any; and (iii) 125% of average Annual Debt Service on the then Outstanding 2015 Bonds and Parity Bonds, if any. The ability of the Legislative Body to increase the annual Special Taxes levied to replenish the Reserve Account is subject to the maximum annual amount of Special Taxes authorized to be levied on the Taxable Property in the Community Facilities District pursuant to the Rate and Method. The moneys in the Reserve Account will only be used for payment of principal of, including Sinking Fund Payments, and interest on, the 2015 Bonds and any Parity Bonds when due in the event that the moneys in the Debt Service Account are insufficient therefor and to pay the provider of a Reserve Credit Facility amounts due to such provider following a draw thereon; provided, however, any cash amounts in the Reserve Account (but not proceeds of a draw on the Reserve Policy) may be applied to pay the principal and interest due on any 2015 Bonds or Parity Bonds in connection with an optional redemption or defeasance in the final Bond Year in which any 2015 Bonds or Parity Bonds are Outstanding as set forth in the Indenture. See "SECURITY FOR THE 2015 BONDS – Reserve Account."

## **Municipal Bond Insurance Policy; Reserve Policy**

The scheduled payment of principal of and interest on the 2015 Bonds maturing on September 1 in each year from and after September 1, 2018 (collectively, the “Insured Bonds”) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE.” In addition, BAM has made a commitment to issue a municipal bond insurance policy for the Reserve Account (the “Reserve Policy”) in an amount equal to the initial Reserve Requirement, which Reserve Policy will be held in the Reserve Account for the benefit of the 2015 Bonds. See “SECURITY FOR THE BONDS—Reserve Account.”

## **Limited Obligation**

Neither the faith and credit nor the taxing power of the School District, the Community Facilities District (except to the limited extent described herein) or the State or any political subdivision thereof is pledged to the payment of the 2015 Bonds. Other than the Net Taxes, no taxes are pledged to the payment of 2015 Bonds. The 2015 Bonds are not general obligations of the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from the Net Taxes and amounts in certain fund and accounts established under the Indenture, as more fully described herein. See “SECURITY FOR THE 2015 BONDS.”

## **Tax Exemption**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, as amended, in the opinion of Bond Counsel, interest on the 2015 Bonds is excluded from gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the 2015 Bonds is exempt from State personal income taxes. See “TAX MATTERS” herein.

## **Risk Factors Associated with Purchasing the 2015 Bonds**

Investment in the 2015 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled “BONDOWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2015 Bonds.

## **Professionals Involved in the Offering**

U.S. Bank National Association, Los Angeles, California, will serve as the Trustee for the 2015 Bonds and will perform the functions required of it under the Indenture for the payment of the principal of and interest on the 2015 Bonds and all activities related to the redemption of the 2015 Bonds. U.S. Bank National Association is also serving as the Escrow Bank under the Escrow Agreement. Government Financial Strategies inc. is acting as Financial Advisor to the School District and as Dissemination Agent for the Community Facilities District. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California is serving as Bond Counsel and as Special Counsel to the Community Facilities District. Quint & Thimmig LLP, Larkspur, California, is acting as Disclosure Counsel for the Community Facilities District. David Taussig & Associates, Inc., Newport Beach, California, is acting as special tax consultant for the Community Facilities District.

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Trustee and the Escrow Bank is contingent upon the sale and delivery of the 2015 Bonds.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2015 Bonds, certain sections of the Indenture, the security for the 2015 Bonds, special risk factors, the Community Facilities District, the School District and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions of the 2015 Bonds, the Indenture, the Escrow Agreement, and resolutions and other documents in this Official Statement are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Indenture, the Escrow Agreement, such resolutions and other documents. Copies of such documents may be obtained by contacting the School District through the office of the Deputy Superintendent, Business & Support Services at the address and telephone set forth on page "i" of this Official Statement, or by contacting the Financial Advisor at the address set forth on page "i" of this Official Statement. There may be charges for the duplication and mailing of documents.

### **PLAN OF REFUNDING**

In accordance with the Act, the 2015 Bonds are being issued by the Community Facilities District to refund, on a current basis, the Refunded Bonds which are outstanding in the principal amount of \$88,990,000. A portion of the proceeds from the sale of the 2015 Bonds, together with certain other amounts held under the 2005 Indenture, will be deposited into an escrow fund (the "Escrow Fund") to be established and maintained by U.S. Bank National Association (the "Escrow Bank") pursuant to the Escrow Agreement, dated as of July 1, 2015 (the "Escrow Agreement"), by and between the Community Facilities District and the Escrow Bank.

Moneys in the Escrow Fund will be held uninvested in cash. American Municipal Tax-Exempt Compliance Corporation, in conjunction with Ross & Company, PLLC, certified public accountants (collectively, the "Verification Agent"), will certify in writing that moneys deposited in the Escrow Fund will be sufficient (i) to pay on September 1, 2015, the principal of and interest on the Refunded Bonds maturing on September 1, 2015, and (ii) to pay on September 1, 2015, the redemption price of the Refunded Bonds maturing on and after September 1, 2016, at a redemption price equal to the principal amount thereof, together with accrued interest to the September 1, 2015 redemption date. The Senior Bonds will remain outstanding under the 2005 Indenture (see, however, "SECURITY FOR THE 2015 BONDS – Senior Obligations"). Amounts on deposit in the Escrow Fund are not available to pay debt service on the Senior Bonds or the 2015 Bonds.

### **CONTINUING DISCLOSURE**

The Community Facilities District will covenant in the Continuing Disclosure Agreement, the form of which is set forth in Appendix D – Form of Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), for the benefit of owners and beneficial owners of the 2015 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2015 Bonds by not later than March 31 in each year commencing on March 31, 2016 (the "Community Facilities District Annual Report"), and to provide notices of the occurrence of certain listed events.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or Government Financial Strategies inc., as Dissemination Agent on behalf of the Community Facilities District, with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“EMMA”). Any notice of a listed event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with EMMA. The specific nature of the information to be contained in the Community Facilities District Annual Report or any notice of a listed event is set forth in the Continuing Disclosure Agreement. The covenants of the Community Facilities District in the Continuing Disclosure Agreement will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). A default under the Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Indenture, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Continuing Disclosure Agreement is an action to compel performance.

In connection with prior undertakings under the Rule, the School District did not file annual reports and notices of rating downgrades of certain debt issues in a timely manner. The School District has developed procedures to ensure that future annual reports and notices of significant events for the School District and its community facilities districts are filed in a timely manner and retained Government Finance Strategies inc. as its dissemination agent in December, 2014. As of the date of this Official Statement, all filings required under continuing disclosure agreements of the School District and community facilities districts formed by the Board have been made in connection with their prior undertakings under the Rule.

#### ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2015 Bonds, and other available moneys, will be deposited into the following respective accounts and funds established under the Indenture and the Escrow Agreement, as follows:

Sources:	
Principal Amount of 2015 Bonds	\$ 87,480,000.00
Plus: Net Original Issue Premium	3,325,726.70
Less: Underwriter’s Discount	(580,880.44)
Plus: Funds from the 2005 Indenture	<u>5,514,250.00</u>
Total Sources	\$ 95,739,046.26
Uses:	
Deposit into Escrow Fund <sup>(1)</sup>	\$ 94,504,250.00
Premium for Reserve Policy <sup>(2)</sup>	218,700.00
Deposit into Costs of Issuance Fund <sup>(3)</sup>	<u>1,016,146.26</u>
Total Uses	\$ 95,739,046.26

(1) See “PLAN OF REFUNDING.”

(2) See “SECURITY FOR THE 2015 BONDS – Reserve Account.”

(3) Costs of Issuance include, among other things, the fees and expenses of Bond Counsel and of Disclosure Counsel, the cost of printing the final Official Statement, municipal bond insurance premium, fees and expenses of the Trustee and the Escrow Bank, and the fees of the Special Tax Consultant, the Financial Advisor and the Verification Agent.

## THE 2015 BONDS

### Authority for Issuance

On June 24, 2015, the Legislative Body adopted Resolution No. 1415-49 (referred to in this Official Statement as the “Resolution”) authorizing the issuance of the 2015 Bonds, and approving the Indenture, the Escrow Agreement and the Continuing Disclosure Agreement. The 2015 Bonds are being issued pursuant to the Act, the Resolution and the Indenture.

### General Provisions

The 2015 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2016 (each, an “Interest Payment Date”), and will mature in the principal amounts and on September 1 in the years set forth on the inside cover page hereof. The 2015 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the 2015 Bonds. Ownership interests in the 2015 Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof within a single maturity. So long as the 2015 Bonds are held in book-entry form, all notices given under the Indenture will be sent only to DTC as the registered owner of the 2015 Bonds and not to the beneficial owners of the 2015 Bonds and the principal of, premium, if any, and interest on the 2015 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2015 Bonds in accordance with the procedures adopted by DTC. See “THE 2015 BONDS – Book-Entry and DTC.”

The 2015 Bonds will bear interest at the rates set forth on the inside cover hereof payable on the Interest Payment Dates in each year. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Each 2015 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of the 2015 Bonds, in which event interest shall be payable from the dated date of the 2015 Bonds; provided, however, that if at the time of authentication of a 2015 Bond, interest is in default, interest on that 2015 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment. Record Date is defined in the Indenture as the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

Interest on the 2015 Bonds shall be paid to the person whose name appears in the 2015 Bond Register as the Owner of the 2015 Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed by first-class mail, postage prepaid, to such Bondowner at his or her address as it appears on the books of registration maintained by the Trustee. Upon the request in writing received by the Trustee on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of 2015 Bonds payment shall be made on the Interest Payment Date by wire transfer in immediately available funds (i) to the DTC (as defined herein) so long as the 2015 Bonds are in book-entry form, or (ii) to an account designated by such Owner. The principal of the 2015 Bonds and any premiums due upon the redemption thereof are payable upon presentation and surrender thereof at the Corporate Trust Office of the Trustee, initially in St. Paul, Minnesota. Transfer, registration, and

exchange, will also be at the Corporate Trust Office of the Trustee in St. Paul, Minnesota. The Trustee may designate another office for payment, surrender, transfer, registration or exchange from time to time.

## Debt Service Schedule

The following table sets forth the scheduled annual debt service on the 2015 Bonds, assuming that there is no optional redemption of the 2015 Bonds prior to their stated maturities.

**TABLE 1**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

### Debt Service Schedule

Year Ending September 1	Principal	Interest	Debt Service	Annual Debt Service
2016	\$ 3,400,000.00	\$ 3,831,413.08	\$ 7,231,413.08	\$ 7,231,413.08
2017	4,030,000.00	3,357,643.76	7,387,643.76	7,387,643.76
2018	4,390,000.00	3,156,143.76	7,546,143.76	7,546,143.76
2019	4,760,000.00	2,936,643.76	7,696,643.76	7,696,643.76
2020	5,160,000.00	2,698,643.76	7,858,643.76	7,858,643.76
2021	5,575,000.00	2,440,643.76	8,015,643.76	8,015,643.76
2022	6,020,000.00	2,161,893.76	8,181,893.76	8,181,893.76
2023	6,435,000.00	1,921,093.76	8,356,093.76	8,356,093.76
2024	6,860,000.00	1,663,693.76	8,523,693.76	8,523,693.76
2025	7,320,000.00	1,389,293.76	8,709,293.76	8,709,293.76
2026	7,715,000.00	1,169,693.76	8,884,693.76	8,884,693.76
2027	8,140,000.00	928,600.00	9,068,600.00	9,068,600.00
2028	8,590,000.00	664,050.00	9,254,050.00	9,254,050.00
2029	9,085,000.00	363,400.00	9,448,400.00	9,448,400.00
Totals	\$87,480,000.00	\$28,682,850.68	\$116,162,850.68	\$116,162,850.68

It should be noted that the Special Taxes will be used each fiscal year to satisfy the Community Facilities District obligations under the 2005 Indenture before they are available for purposes of the Indenture (including payment of the debt service on the 2015 Bonds); however the Senior Bonds are all capital appreciation bonds that mature after the final maturity of the 2015 Bonds. See "SECURITY FOR THE 2015 BONDS – Senior Obligations."

## Redemption

*Optional Redemption.* The 2015 Bonds maturing on or after September 1, 2020, may be redeemed prior to maturity at the option of the Community Facilities District, from any source of funds on any date on or after September 1, 2019, in whole or in part, from such maturity or maturities as selected by the Community Facilities District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

*Purchase In Lieu of Redemption.* In lieu of payment at maturity or redemption, moneys in the Special Tax Fund may be used and withdrawn by the Trustee for purchase of Outstanding 2015 Bonds, upon the filing with the Trustee of a Certificate of an Authorized Representative requesting such purchase, at a public or private sale as and when, and at such prices (including brokerage and other charges) as such Certificate of an Authorized Representative may provide,

but in no event will 2015 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase.

*Notice of Redemption.* So long as the 2015 Bonds are held in book-entry only form, notice of redemption will be sent by the Trustee only to DTC or its nominee and not to the owners of beneficial interests in the 2015 Bonds. See Appendix F-Book-Entry and DTC.

When 2015 Bonds are to be called for redemption under the Indenture, if the Trustee has received the required notice from the Community Facilities District in the case of an optional redemption, the Trustee shall give notice, in the name and at the expense of the Community Facilities District, of the redemption of such 2015 Bonds. Such notice of redemption shall (a) specify the serial numbers and the maturity date or dates of the 2015 Bonds selected for redemption, except that where all the 2015 Bonds subject to redemption, or all the 2015 Bonds of one maturity, are to be redeemed, the serial numbers thereof need not be specified; (b) state the date fixed for redemption and surrender of the 2015 Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the 2015 Bonds are to be surrendered for redemption; and (e) in the case of 2015 Bonds to be redeemed only in part, state the portion of such 2015 Bond which is to be redeemed. Such notice may state that redemption is contingent upon the availability of refunding bond proceeds. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each 2015 Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Trustee shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the 2015 Bond Register, or, so long as the 2015 Bonds are registered in the name of DTC or its nominee, in such manner as complies with the requirements of DTC.

Any notice of redemption for an optional redemption of the Bonds delivered in accordance with the Indenture may be conditional, and, if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date: (i) the notice of redemption shall be of no force and effect, (ii) the District shall not be required to redeem such Bonds, (iii) the redemption shall not be made, and (iv) the Trustee shall within a reasonable time thereafter give notice to the persons in the manner in which the conditional notice of redemption was given that such condition or conditions were not met and that the redemption was canceled.

The actual receipt by the Owner of any 2015 Bond of notice of such redemption shall not be a condition precedent thereto, and neither the failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as provided in the Indenture shall be conclusive as against all parties, and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice shall be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption shall be sent not later than the date that notice of redemption is mailed to the 2015 Bondowners pursuant to the preceding paragraph by registered or certified mail or overnight delivery service to DTC, or in such other manner as is approved by the recipient of such notice, and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the 2015 Bonds as determined by the Trustee and to one or more of the



national information services that the Trustee determines are in the business of disseminating notice of redemption of obligations such as the 2015 Bonds.

Upon the payment of the redemption price of any 2015 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall to the extent practicable bear the CUSIP number identifying, by issue and maturity, the 2015 Bonds being redeemed with the proceeds of such check or other transfer.

*Partial Redemption of Bonds.* Upon surrender of any 2015 Bond to be redeemed in part only, the Community Facilities District shall execute and the Trustee shall authenticate and deliver to the 2015 Bondowner, at the expense of the Community Facilities District, a new 2015 Bond or 2015 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2015 Bonds surrendered, with the same interest rate and the same maturity.

*Effect of Notice and Availability of Redemption Money.* Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption: (a) the 2015 Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture, anything in the Indenture or in the 2015 Bonds to the contrary notwithstanding; (b) upon presentation and surrender thereof at the Corporate Trust Office of the Trustee, the redemption price of such 2015 Bonds shall be paid to the Owners thereof; (c) as of the redemption date the 2015 Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such 2015 Bonds, or portions thereof, shall cease to bear further interest; and (d) as of the date fixed for redemption no Owner of any of the 2015 Bonds, or portions thereof so designated for redemption shall be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## **Registration, Transfer and Exchange**

*Bond Register.* The Trustee will keep or cause to be kept, at the Corporate Trust Office, sufficient books for the registration and transfer of the 2015 Bonds and any Parity Bonds which shall be open to inspection by the Community Facilities District during all regular business hours upon reasonable prior notice, and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, 2015 Bonds and any Parity Bonds as provided in the Indenture.

The Community Facilities District and the Trustee may treat the Owner of any 2015 Bond or Parity Bond whose name appears on the 2015 Bond Register as the absolute Owner of that 2015 Bond or Parity Bond for any and all purposes, and the Community Facilities District and the Trustee shall not be affected by any notice to the contrary. The Community Facilities District and the Trustee may rely on the address of the 2015 Bondowner as it appears in the 2015 Bond Register for any and all purposes. It shall be the duty of the 2015 Bondowner to give written notice to the Trustee of any change in the 2015 Bondowner's address so that the 2015 Bond Register may be revised accordingly.

*Registration of Exchange or Transfer.* Subject to the limitations of the following paragraph, the registration of any 2015 Bond or Parity Bond may, in accordance with its terms, be transferred upon the 2015 Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2015 Bond or Parity Bond for cancellation at the Corporate Trust Office of the Trustee, accompanied by delivery of a written

instrument of transfer in a form approved by the Trustee and duly executed by the 2015 Bondowner or his or her duly authorized attorney.

2015 Bonds or Parity Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of 2015 Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Trustee shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the 2015 Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any 2015 Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the Community Facilities District shall execute and the Trustee shall authenticate and deliver a new 2015 Bond or 2015 Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) 2015 Bonds or Parity Bonds for a period of 15 days next preceding any selection of the 2015 Bonds or Parity Bonds to be redeemed; or (ii) any 2015 Bonds or Parity Bonds chosen for redemption.

### **Book-Entry and DTC**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2015 Bonds. The 2015 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 certificate will be issued for each maturity of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See Appendix F – Book-Entry and DTC.

## **SECURITY FOR THE 2015 BONDS**

### **Senior Obligations**

Proceeds of the 2015 Bonds will be used to currently refund and legally defease the Refunded Bonds. However, the Senior Bonds will remain outstanding under the 2005 Indenture. The Indenture provides that the Special Taxes to be deposited under the Indenture include all Special Taxes paid to the Trustee from the 2005 Fiscal Agent in accordance with the 2005 Indenture. The 2005 Indenture provides for Special Taxes collected by the Community Facilities District each Fiscal Year, after the deposit to the Administrative Expense Account up to the Administrative Expense Cap, as such terms are defined in the 2005 Indenture, be remitted by the 2005 Fiscal Agent to the Trustee for deposit in the Special Tax Fund under the Indenture. The Senior Bonds are capital appreciation bonds, and all amounts payable with respect to the Senior Bonds are due and payable only at their respective maturities on September 1 in the years 2030, 2031, 2032 and 2033 (\$9,955,000 accreted value of the Senior Bonds due and payable on September 1 in each such year).

In light of the foregoing, the only monetary obligation of the Community Facilities District under the 2005 Indenture following the issuance of the 2015 Bonds and defeasance of the Refunded Bonds (see “PLAN OF REFUNDING”) will be to annually fund the Administrative Expense Account established under the 2005 Indenture up to the annual Administrative Expense Cap thereunder (being an amount equal to \$150,000 for the period September 2, 2015 to September 1, 2016 and increasing by 2% each such annual period thereafter). Thus, the maximum amount of Special Taxes that are expected to be needed on an annual basis for the Community Facilities District to satisfy its obligations under the 2005 Indenture is an amount equal to the annual Administrative Expense Cap as defined in the 2005 Indenture.

## **General**

Pursuant to the Act and the Indenture, the 2015 Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (other than in the Administrative Expense Account therein) established under the Indenture, without priority for number, date of the 2015 Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the 2015 Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (other than in the Administrative Expense Account therein), which are set aside for the payment of the 2015 Bonds and any Parity Bonds. Amounts in the Special Tax Fund constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the 2015 Bonds and any Parity Bonds and so long as any of the 2015 Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the 2015 Bonds or any Parity Bonds, and none of the Rebate Fund, the Costs of Issuance Fund, the Surplus Fund or the Administrative Expense Account shall be construed as a trust fund held for the benefit of the Owners.

So long as any 2015 Bonds or Parity Bonds issued under the Indenture are Outstanding, the legislative body of the Community Facilities District covenants in the Indenture to levy the Special Tax pursuant to the terms of the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) amounts due on the Senior Bonds and as required to fund the Administrative Expense Account under the 2005 Indenture, (2) the principal of and interest on the 2015 Bonds and any Parity Bonds when due, (3) the Administrative Expenses (as defined in the Indenture), and (4) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement and to reimburse the provider of any Reserve Credit Facility for costs incurred with respect to the Reserve Credit Facility which are payable by the Community Facilities District.

Amounts in the Rebate Fund and the Administrative Expense Account are not pledged to the repayment of the 2015 Bonds. The Facilities constructed and acquired with the proceeds of the 2005 Bonds are not in any way pledged to pay the debt service on the 2015 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2005 Bonds are not pledged to pay the debt service on the 2015 Bonds. The amounts in the Surplus Fund are not pledged to the repayment of the 2015 Bonds or the Parity Bonds and may be used by the Community Facilities District for any lawful purpose.

## **Limited Obligation**

Neither the faith and credit nor the taxing power of the School District, the Community Facilities District (except to the limited extent described herein) or the State or any political subdivision thereof is pledged to the payment of the 2015 Bonds. Other than the Net Taxes, no taxes are pledged to the payment of the 2015 Bonds. The 2015 Bonds are not general obligations of the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from the Net Taxes and amounts in certain funds and accounts established under the Indenture, as more fully described herein.

## **Special Taxes**

The Community Facilities District will covenant in the Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the

Community Facilities District's authority to levy the Special Tax for so long as the 2015 Bonds and any Parity Bonds are Outstanding. The Rate and Method provides that the Special Taxes are payable and will be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that the Community Facilities District may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

Because the Special Tax levy is limited to the Maximum Special Tax rates set forth in the Rate and Method and in certain circumstances described in the Rate and Method to lower amounts, no assurance can be given that, in the event of Special Tax delinquencies, the receipt of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the 2015 Bonds. See "THE COMMUNITY FACILITIES DISTRICT – Levy of Special Taxes to Applicable Maximum Rates." But see "SECURITY FOR THE 2015 BONDS – Alternative Method of Tax Apportionment."

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation, they do not constitute a personal indebtedness of the owners of property. There is no assurance that the owners of real property will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. See "BONDOWNERS' RISKS" herein. The Special Taxes were first levied on Taxable Property in the Community Facilities District in fiscal year 2005-2006, and a history of Special Tax levies and collections can be found under the heading "THE COMMUNITY FACILITIES DISTRICT – Special Tax Delinquency."

## **Rate and Method**

*General.* On February 8, 1999, the Legislative Body established the Community Facilities District, which includes approximately 2,400 gross acres of land within the boundaries of the School District. The Community Facilities District is authorized to levy and collect a Special Tax to finance facilities and to pay obligations of the District, including the Senior Bonds and the 2015 Bonds, in accordance with the Rate and Method, a copy of which is set forth in Appendix B. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

The Rate and Method provides the means by which the Legislative Body may annually levy the Special Taxes within the Community Facilities District up to the applicable Maximum Special Tax. The Rate and Method provides that the Special Tax shall be levied on each Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

*Special Tax Requirement.* Annually, at the time of levying the Special Tax for the Community Facilities District, the Special Tax Requirement is determined. The Special Tax Requirement is defined as the amount required in any Fiscal Year to pay the following: (i) the debt service or the periodic costs on all outstanding Bonds (i.e., the Senior Bonds, the 2015 Bonds, and any Parity Bonds), (ii) Administrative Expenses of the Community Facilities District, (iii) any amount required to establish or replenish any reserve funds for the Senior Bonds, the 2015 Bonds and any Parity Bonds, (iv) directly for construction of facilities eligible under the Act to be financed by the Community Facilities District; and (v) for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vi) a credit for funds available to reduce the annual Special Tax levy, as determined pursuant to the Indenture.

*Developed and Undeveloped Property; Exempt Property.* The Rate and Method provides that for each Fiscal Year, all Taxable Property within CFD No. 98-2 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable

Religious Property or Undeveloped Property. Residential Property, defined as all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of construction of one or more residential dwelling units, is then assigned to Land Use Class 1, and Non-Residential Property (all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use) is assigned to Land Use Class 2. The Assigned Special Tax for Residential Property is based on the Residential Floor Area, and the Assigned Special Tax for Non-Residential Property is based on the acreage of the applicable parcel.

*Assigned Special Tax Rates.* The weighted average Assigned Special Taxes for the two Land Use Classes of Developed Property in the Community Facilities District are as set forth in Table 2 below. The actual Assigned Special Tax for parcels in the Community Facilities District is dependent upon the year in which a building permit was issued for the respective parcel. See Table 4 under "THE COMMUNITY FACILITIES DISTRICT – Development of the Community Facilities District."

**TABLE 2**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**  
  
**Weighted Average Assigned Special Taxes**  
**for Developed Property for Fiscal Year 2015-16**

Land Use Class	Description	Assigned Special Tax
1	Residential Property	\$0.5586 per square foot of Residential Floor Area
2	Non-Residential Property	\$12,236.80 per acre

Source: David Taussig & Associates, Inc.

Pursuant to the Rate and Method, the Assigned Special Taxes in Table 1 in the Rate and Method in Appendix B were applicable for Fiscal Year 1999-2000, but for an Assessor's Parcel that was first designated as Developed Property in a later Fiscal Year, the Assigned Special Tax for such Assessor's Parcel in that later Fiscal Year was to be increased above the levels listed in Table 1 in the Rate and Method in Appendix B, based on the Consumer Price Index, commencing on July 1, 2000 and on July 1 of each Fiscal Year thereafter, with a maximum annual increase of four percent (4%) and a minimum annual increase of two percent (2%). After the first Fiscal Year in which any Assessor's Parcel is designated as Developed Property, the Assigned Special Tax for such Assessor's Parcel is to be increased every July 1 by two percent (2%) per year. See "THE COMMUNITY FACILITIES DISTRICT – Development of the Community Facilities District."

*Method of Apportionment.* The Rate and Method provides that the Board shall levy the Special Tax Proportionately on each Assessor's Parcel of Developed Property up to 100% of the Assigned Annual Special Tax applicable to each such Assessor's Parcel, as necessary to satisfy the Special Tax Requirement for the applicable Fiscal Year. If the sum of the amounts collected on Developed Property is insufficient to satisfy the Special Tax Requirement, then the Board shall levy Proportionately a Special Tax on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax for Undeveloped Property. If the sum of the amounts collected on Developed Property and Undeveloped Property is insufficient to satisfy the Special Tax Requirement, then the Board shall levy the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel. If additional monies are needed to

satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

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

The following table provides information regarding the estimated Fiscal Year 2015-16 Special Tax levy for the Community Facilities District.

**TABLE 3**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**  
**Weighted Average**  
**Estimated Fiscal Year 2015-16 Special Tax Rates**

Land Use Class	Description	Building SF/ Acres	FY 2015-2016 Expected Actual Special Tax <sup>(1)</sup>	Percentage of Assigned Special Tax
Tax Class 1	Residential Property	17,600,883 Sq.Ft.	\$0.5203 per Sq.Ft.	93.14%
Tax Class 2	Non-Residential Property	69.85 Acres	11,397.43 per Acre	93.14

(1) Based on the estimated weighted average Special Tax rate for Residential and Non-Residential Property. Note that Assigned Special Tax rates increase by 2.00% per fiscal year.  
 Source: David Taussig & Associates, Inc.

*No Prepayment of Special Taxes.* The Rate and Method does not provide for any prepayment of the Special Tax by owners of Taxable Property in the Community Facilities District.

**Proceeds of Foreclosure Sales**

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

The Community Facilities District will covenant in the Indenture, for the benefit of the Owners of the 2015 Bonds and any Parity 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 and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that,

notwithstanding the foregoing, the Community Facilities District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in an amount in excess of \$10,000 so long as (1) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (2) with respect to the 2015 Bonds, or any Parity Bonds, the Community Facilities District is not in default in the payment of the principal of or interest on the 2015 Bonds or any such Parity Bonds. The Community Facilities District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the 2015 Bonds and any Parity Bonds.

The Community Facilities District will covenant in the Indenture that it will deposit the net proceeds of any foreclosure payable to it in the Special Tax Fund established under the 2005 Indenture and will apply such proceeds remaining after the payment of Administrative Expenses (under both the 2005 Indenture and the Indenture) to make current payments of principal and interest on the 2015 Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement, to pay any delinquent installments of principal or interest due on the 2015 Bonds and any Parity Bonds and to pay amounts owing to the Insurer as a result of any draw on the Reserve Policy. So long as the Community Facilities District is included in the County's Teeter Plan and the Community Facilities District has been paid by the County for delinquent installments of Special Tax, all foreclosure proceeds will be paid to the County. See "SECURITY FOR THE 2015 BONDS-Alternative Method of Tax Apportionment."

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

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. See "BONDOWNERS' RISKS – Potential Delay and Limitations in Foreclosure Proceedings." If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Community Facilities District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made. The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the Senior Bonds, the 2015 Bonds and any Parity Bonds outstanding.

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

If the Reserve Account is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the 2015 Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of

foreclosure sale proceeds, if any. However, within the limits of the Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2015 Bonds and to replenish the Reserve Account. Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the Community Facilities District. There is, however, no assurance that the Maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2015 Bonds by the Indenture. See, however "SECURITY FOR THE BONDS – Alternative Method of Tax Apportionment."

### **Special Tax Fund**

The Indenture provides that subject to the terms of the 2005 Indenture regarding the funding of the Administrative Expense Account thereunder, the Community Facilities District shall, on and prior to September 1, 2029, no later than the last day of each month during which the Special Taxes are apportioned to the Community Facilities District, transfer the Special Taxes to the Trustee. The Trustee shall, on each date on which the Special Taxes are received from the Community Facilities District or the 2005 Fiscal Agent, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to: (1) the Administrative Expense Account of the Special Tax Fund; (2) the Debt Service Account of the Special Tax Fund; (3) the Reserve Account of the Special Tax Fund; (4) the Rebate Fund; and (5) the Surplus Fund.

At the maturity of all 2015 Bonds and Parity Bonds and, after all principal and interest then due on the 2015 Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the Community Facilities District for any lawful purpose.

### **Administrative Expense Account**

The Indenture directs the Trustee to transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the Community Facilities District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expense Requirement until such time as there has been deposited to the Debt Service Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all 2015 Bonds and Parity Bonds due in such Bond Year and to the Reserve Account an amount sufficient to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expense Requirement may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes.

Pursuant to the Indenture, moneys in the Administrative Expense Account are not pledged or available for the payment of debt service on the 2015 Bonds.

### **Debt Service Account**

Under the Indenture the principal or Sinking Fund Payment of, and interest on, the 2015 Bonds and Parity Bonds until maturity shall be paid by the Trustee from amounts transferred to



the Debt Service Account of the Special Tax Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the 2015 Bonds and Parity Bonds will be made when due, at least one Business Day prior to each Interest Payment Date, the Trustee shall make the following transfers to the Debt Service Account; provided, however, that to the extent that deposits have been made in the Debt Service Account from the proceeds of the sale of the 2015 Bonds and Parity Bonds, or otherwise, or to the extent that a transfer will be made from the Reserve Account to the Debt Service Account from excess amounts therein in accordance with the Indenture, the transfer from the Special Tax Fund need not be made: an amount such that the balance in the Debt Service Account one (1) Business Day prior to each Interest Payment Date shall be equal to the installments of interest, principal and Sinking Fund Payments due on the 2015 Bonds and Parity Bonds on said Interest Payment Date. Moneys in the Debt Service Account shall be used for the payment of the interest, principal or Sinking Fund Payment of the 2015 Bonds and Parity Bonds as the same become due.

### **Redemption Account**

After making the deposit to the Debt Service Account of the Special Tax Fund as described above and to the Reserve Account to replenish the balance therein to the Reserve Requirement as described below, and in accordance with the Community Facilities District's election to call Bonds or Parity Bonds for optional redemption as set forth in "THE 2015 BONDS – Redemption" or any Supplemental Indenture, the Indenture directs the Trustee to transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal of and interest on the 2015 Bonds or Parity Bonds called for redemption one (1) Business Day prior to the redemption date; provided, however, that Net Taxes may be applied to optionally redeem Bonds or Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

The Indenture provides that moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming 2015 Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the 2015 Bonds or Parity Bonds to be redeemed upon presentation and surrender of such 2015 Bonds or Parity Bonds; provided, however, in lieu or partially in lieu of such call and redemption, upon receipt by the Trustee of written direction of the Community Facilities District to purchase 2015 Bonds or Parity Bonds, moneys deposited in the Redemption Account may be used to purchase Outstanding 2015 Bonds or Parity Bonds. See "THE 2015 BONDS – Redemption – Purchase In Lieu of Redemption."

### **Reserve Account**

The Indenture provides that there shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement which will initially be satisfied by the Reserve Policy. Reserve Requirement is defined in the Indenture to mean the amount as of any date of calculation equal to the least of (i) 10% of the initial principal amount of the 2015 Bonds and Parity Bonds, if any, (ii) Maximum Annual Debt Service on the then Outstanding 2015 Bonds and Parity Bonds, if any; or (iii) 125% of average Annual Debt Service on the then Outstanding 2015 Bonds and Parity Bonds. The Indenture requires that moneys in the Reserve Account be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the 2015 Bonds and any Parity Bonds when due in the event that the moneys in the Debt Service Account of the Special Tax Fund are insufficient therefor and to pay the provider of a Reserve Credit Facility amounts due to such provider following a draw thereon; provided, however, cash amounts in the Reserve Account (but not proceeds of any draw on the Reserve Policy) may be applied to pay the principal and interest due on any 2015

Bonds or Parity Bonds in the final Bond Year in which any 2015 Bonds or Parity Bonds are Outstanding or to redeem or defease 2015 Bonds or Parity Bonds as described below.

If the amounts in the Debt Service Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the 2015 Bonds and any Parity Bonds when due, the Trustee will withdraw from the Reserve Account for deposit in the Debt Service Account of the Special Tax Fund moneys necessary for such purposes. Following any transfer to the Debt Service Account of the Special Tax Fund, the Community Facilities District shall then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement and to pay the provider of a Reserve Credit Facility amounts due to such provider following a draw thereon by transferring such amount from Special Taxes held by the Treasurer or, if the Community Facilities District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

The Indenture requires that, whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Debt Service Account and the Redemption Account described above, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund the amount needed to restore the amount of such account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Debt Service Account of the Special Tax Fund. In no event shall amounts in the Reserve Account be used to pay fees or expenses of the Trustee or its counsel.

In the event of a draw on the Reserve Policy, from amounts deposited to the Reserve Account the Community Facilities District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by BAM and shall pay interest thereon from the date of payment by BAM at the Late Payment Rate.

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

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

See Appendix C—Summary of Certain Provisions of the Bond Indenture—Municipal Bond Insurance Policy and Reserve Policy for a further description of provisions related to the Reserve Policy.

In connection with a redemption of 2015 Bonds or Parity Bonds pursuant to the optional redemption provisions of the Indenture, or a defeasance of 2015 Bonds or Parity Bonds in accordance with the Indenture, cash amounts in the Reserve Account (but not proceeds of any draw on the Reserve Policy) shall be applied to such redemption or defeasance so long as the amount on deposit in the Reserve Account following such redemption or any partial defeasance equals the Reserve Requirement.

The Indenture requires that moneys in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account on the Business Day before each

Interest Payment Date and transferred to the Debt Service Account to be applied to the interest on the 2015 Bonds and Parity Bonds on the next Interest Payment Date, or may be used to make transfers to the Rebate Fund required under the Indenture.

### **Rebate Fund**

Pursuant to the Indenture, the Trustee shall establish and maintain a Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by the Indenture and the Tax Certificate. Pursuant to the Indenture, moneys in the Rebate Fund are not available for the payment of debt service on the 2015 Bonds.

### **Surplus Fund**

After making the transfers required to and from the Special Tax Fund and the transfers to the Administrative Expense Account, the Debt Service Account, the Redemption Account, the Reserve Account and the Rebate Fund, as soon as practicable after each September 1, and in any event prior to each October 1, the Indenture provides that the Trustee transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the Community Facilities District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the Community Facilities District (i) to the Debt Service Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the 2015 Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses; or (iv) for any other lawful purpose of the Community Facilities District.

The amounts in the Surplus Fund are not pledged to the repayment of the 2015 Bonds or the Parity Bonds and may be used by the Community Facilities District for any lawful purpose.

### **Investments**

Moneys held in any of the Funds and Accounts under the Indenture will be invested by the Trustee at the written direction of the Community Facilities District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds and Accounts. Any loss resulting from such Authorized Investments shall be charged to the Fund or Account from which such investment was made, and any investment earnings on a Fund or Account shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund shall be deposited in that Fund, (ii) investment earnings on all amounts in the Rebate Fund shall be deposited in that Fund, (iii) investment earnings on all amounts deposited in the Reserve Account of the Special Tax Fund shall be used to satisfy the Reserve Requirement and any investment earnings not needed to satisfy the Reserve Requirement shall be withdrawn from the Reserve Account one (1) Business Day before each Interest Payment Date and transferred to the Debt Service Account as provided in the Indenture; and (iv) all other investment earnings shall be deposited in the Debt Service

Account of the Special Tax Fund. See Appendix C – Summary of Certain Provisions of the Indenture for a definition of “Authorized Investments” and other provisions of the Indenture relating to investments.

### **Additional Bonds for Refunding Purposes Only**

The Community Facilities District may at any time after the issuance and delivery of the 2015 Bonds issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding 2015 Bonds and any other Parity Bonds theretofore issued; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the 2015 Bonds or any Parity Bonds then outstanding. The issuance of Parity Bonds is subject to specific conditions including that the Community Facilities District must be in compliance with all covenants set forth in the Indenture and any Supplemental Indenture then in effect and a certificate of the Community Facilities District to that effect will be filed with the Trustee. See Appendix C – Summary of Certain Provisions of the Indenture.

### **Alternative Method of Tax Apportionment**

As an alternative method of property tax allocation for the County, the County Board of Supervisors approved on September 28, 1993, implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) pursuant to sections 4701 through 4717 of the State’s Revenue & Taxation Code. The Teeter Plan guarantees distribution of 100% of the ad valorem taxes and assessments levied to the taxing entities within the County, with the County retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

The County Treasurer’s cash position is protected by a special fund, known as the “Tax Loss Reserve Fund,” which accumulates moneys from tax and penalty collections. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County’s general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls in that agency.

As long as the Teeter Plan remains in effect in the County, the Community Facilities District will be credited with the full amount of the Special Tax levy no matter the delinquency rate within the District. No assurance can be given that the Teeter Plan will remain in place for the Community Facilities District until the final maturity of the 2015 Bonds.

### **Rights of Insurer**

Any reorganization or liquidation plan with respect to the Community Facilities District must be acceptable to BAM. In the event of any reorganization or liquidation of the Community Facilities District, BAM shall have the right to vote on behalf of all holders of the Insured Bonds absent a continuing failure by BAM to make a payment under the Policy.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, BAM shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Bonds or the Trustee for the benefit of the holders of the Insured Bonds under this Indenture. No default or event of default may be waived without BAM's written consent.

Upon the occurrence and continuance of a default or an event of default, BAM shall be deemed to be the sole owner of the Insured Bonds for all purposes under the Indenture, including, without limitation, for purposes of exercising remedies and approving amendments.

If an Insurer Default shall occur and be continuing, then, notwithstanding anything in the paragraphs above to the contrary, (1) if at any time prior to or following an Insurer Default, BAM has made payment under the Municipal Bond Insurance Policy, to the extent of such payment BAM shall be treated like any other holder of the Insured Bonds for all purposes, including giving of consents, and (2) if BAM has not made any payment under the Municipal Bond Insurance Policy, BAM shall have no further consent rights until the particular Insurer Default is no longer continuing or BAM makes a payment under the Municipal Bond Insurance Policy, in which event, the foregoing clause (1) shall control.

The Indenture provides that in the event of a draw on the Municipal Bond Insurance Policy, BAM will be reimbursed for BAM Reimbursement Amounts and that such amounts are payable from and secured by a lien on and pledge of the Net Taxes pledged to the Insured Bonds on a parity with debt service due on the Insured Bonds.

See Appendix C—Summary of Certain Provisions of the Bond Indenture—Municipal Bond Insurance Policy and Reserve Policy for a further description of provisions related to the Municipal Bond Insurance Policy.

## **MUNICIPAL BOND INSURANCE**

### **Municipal Bond Insurance Policy**

Concurrently with the issuance of the Insured Bonds, BAM will issue the Municipal Bond Insurance Policy for the Insured Bonds. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included as an exhibit to this Official Statement. The scheduled payment of principal and interest on the 2015 Bonds maturing on September 1, 2106 and on September 1, 2017 will not be insured.

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

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

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

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

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

BAM's financial strength is rated "AA/Stable" by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Insured Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Insured Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Insured Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Insured Bonds, nor does it guarantee that the rating on the Insured Bonds will not be revised or withdrawn.

#### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2015 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$466.5 million, \$22.2 million and \$444.3 million, respectively.

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

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

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

#### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The

Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/)

**Obligor Disclosure Briefs.** Prior to the pricing of the Insured Bonds, BAM may prepare a pre-sale Obligor Disclosure Brief for the Insured Bonds. These pre-sale Obligor Disclosure Briefs provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to the closing, for any offering that includes bonds insured by BAM, any pre-sale Obligor Disclosure Briefs will be updated and superseded by a final Obligor Disclosure Brief to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Obligor Disclosure Briefs are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce an Obligor Disclosure Brief for all bonds insured by BAM, whether or not a pre-sale Obligor Disclosure Brief has been prepared for such bonds.

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

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

## THE COMMUNITY FACILITIES DISTRICT

### General Information

The Community Facilities District is located in the southeast portion of the County of Orange (the "County"), of which approximately 931 acres are expected to be subject to the Special Tax at buildout. The Community Facilities District is within the approximately 4,000-acre master planned community of Ladera Ranch ("Ladera Ranch").

Based on the development status of the property in the Community Facilities District as of January 1, 2015, and property ownership as of January 1, 2014, there were 6,648 parcels of property in the Community Facilities District that were owned by individual homeowners, 23 parcels owned by Warmington Legacy (all of which have building permits for single family homes), 3 parcels owned by William Lyon Homes (all of which have building permits for single family homes), 6 parcels on which multifamily rental housing facilities with a total of 1,290 apartment units have been constructed, 50 parcels improved with non-residential facilities, and 99 parcels that had not yet been developed. As of January 1, 2014 the net County assessed value of the property in the Community Facilities District subject to the levy of Special Taxes was \$4,793,982,273.

Approximately 1,600 acres of the Community Facilities District have been set-aside as open space, which property is not subject to the levy of Special Taxes. In addition, 265 acres of

public property (including streets and public parks), 6 acres of religious property and approximately 927 acres of property that is owned by a property owners' homeowners association (including private streets and open space) are exempt from payment of Special Taxes.

The Ladera Ranch development is divided into nine "villages," each of which includes ten or more neighborhoods. The villages are: Oak Knoll Village, Bridgepark, Flintridge Village, Township, Wycliffe Village, Echo Ridge Village, Avendale Village, Terramor Village, and Covenant Hills Village. Five of the nine villages have clubhouses themed on a particular architecture style that is emphasized within that village. In addition to the various clubhouses, the community has a private water park and skate park, 18 community parks, four large community pools, a dog park, six smaller neighborhood pools, many pocket parks and green belts, a shopping district called Mercantile East Shopping Center, and miles of hiking trails that connect to Doheny Beach. The Covenant Hills Village is a gated community which is closed to the general public, but accessible to all card-carrying residents of Ladera Ranch. There are no other gated villages in Ladera Ranch.

Located in the unincorporated area of Orange County, Ladera Ranch is governed by the County Board of Supervisors. However, there is a volunteer group, the Ladera Ranch Civic Council, that has no official role or legal authority, but whose seven member board of directors advises the Board of Supervisors of the County on topics within Ladera Ranch such as planning and land use, public safety and infrastructure.

Within the community are the Chaparral and Oso Grande Elementary Schools and the Ladera Ranch School, which is home to both an elementary school and a middle school on the same campus. A branch of the Orange County Public Library is located on the campus of Ladera Ranch School. Stoneybrooke Christian School is a private K-8 school that is also located in Ladera Ranch. The community is close to Saddleback College in Mission Viejo, California and Soka University of America in Aliso Viejo, California.

### **History of the Community Facilities District**

*Resolutions of Intention:* On September 14, 1998, the Legislative Body adopted Resolution No. 9899-28 stating its intention to establish the Community Facilities District and to authorize the levy of a special tax therein pursuant to the Rate and Method. On the same day the Legislative Body adopted Resolution No. 9899-29 stating its intention to incur bonded indebtedness in an amount not to exceed \$115,000,000 for the Community Facilities District. The Community Facilities District proceedings authorize Special Taxes to be used to pay directly for Facilities.

*Joint Community Facilities Agreement:* On November 2, 1998, the School District entered into a Joint Community Facilities Agreement with the Santa Margarita Water District (the "Water District") and DMB Ladera, LLC, the master developer of Ladera Ranch (the "Master Developer"), the then owner of all of the land in the Community Facilities District. The Joint Community Facilities Agreement authorized the Community Facilities District to finance certain Water District facilities including sewer lift stations, force mains, trunk sewers, wastewater treatment plant improvements, water reservoirs, water pumping stations and water distribution mains (collectively, the "Water District Facilities").

*Resolution of Formation:* Immediately following a noticed public hearing on February 8, 1999, the Legislative Body adopted Resolution No. 9899-76 (the "Resolution of Formation"), which established the Community Facilities District, approved the Original Rate and Method and authorized the levy of a special tax within the Community Facilities District pursuant to the Original Rate and Method.



*Resolution of Necessity:* On February 8, 1999, the Legislative Body adopted Resolution No. 9899-77 determining the necessity to incur bonded indebtedness in an amount not to exceed \$115,000,000 for the Community Facilities District and submitting the proposition to the qualified electors of the Community Facilities District.

*Landowner Election:* On February 8, 1999, an election was held within the Community Facilities District, in which the only landowner eligible to vote, the Master Developer, approved the ballot proposition authorizing the issuance of up to \$115,000,000 in bonds to finance the Facilities. The sole qualified elector, the Master Developer, also approved the levy of a special tax in accordance with the Original Rate and Method and the establishment of an appropriations limit for the Community Facilities District.

*Special Tax Lien:* A Notice of Special Tax Lien for the Community Facilities District was recorded in the real property records of the County on February 23, 1999, as Document No. 19990247137.

*Ordinance Levying Special Taxes:* On March 8, 1999, the Legislative Body adopted Ordinance No. 98-2-1 levying the Special Tax on the Taxable Property within the Community Facilities District.

*The 1999 Bonds.* On April 19, 1999, the Community Facilities District issued the 1999 Bonds in the original principal amount of \$105,330,000.

*Amendment to Rate and Method.* On June 28, 1999, a second election was held within the Community Facilities District at which the Master Developer, as the then sole qualified elector of the Community Facilities District, voted to approve amendments to the Original Rate and Method for the purpose of reducing the back-up Special Tax and certain maximum Special Tax rates on developed property, resulting in the approval of the Rate and Method, a copy of which is included in Appendix B. On June 29, 1999, an Amendment No. 1 to the Notice of Special Tax Lien was recorded in the real property of the County as Document No. 19990480990.

*The 2005 Bonds:* On April 28, 2005, the Community Facilities District issued the 2005 Bonds in the principal amount of \$119,099,490.60, the net proceeds of which were used to refund in whole the 1999 Bonds then outstanding, and to provide additional financing for the Facilities.

*The 2015 Bonds:* On June 24, 2015, the Legislative Body adopted Resolution No. 1415-49 authorizing the issuance of the 2015 Bonds and approving the documents related thereto, including the Indenture and the Escrow Agreement.

## **Development of the Community Facilities District**

The net proceeds of the 1999 Bonds and approximately \$19,548,500 of the net proceeds of the 2005 Bonds were expended for costs of the Facilities, including the acquisition of land and construction for two elementary schools, a combined elementary and middle school and a portion of a high school for the School District, and certain of the Water District Facilities. The net proceeds of the 2005 Bonds not used to refund the 1999 Bonds were used to finance additional school facilities for the School District.

Development of the land in the Community Facilities District has been ongoing since 1999. Table 4 below sets forth the building permit activity relative to the development of the Taxable Property in the Community Facilities District and the resulting maximum and

estimated actual Assigned Special Tax rates for Fiscal Year 2015-2016 related to such Taxable Property.

**TABLE 4**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**  
**Building Activity and Maximum Special Tax Rates**

Land Use	Building Square Footage	Number of Units/ Acres	FY 2015-16 Assigned/Maximum Special Tax <sup>(1)</sup>	Estimated FY 2015-16 Actual Special Tax <sup>(2)</sup>	Percent of Assigned/ Maximum Special Tax
<b>Residential Property</b>					
Units with permits issued as of 1/1/00	1,094,540	478	\$0.5378 per Bldg SF	\$0.5009 per Bldg SF	93.14%
Units with permits issued as of 1/1/01	2,207,509	1,118	0.5468 per Bldg SF	0.5093 per Bldg SF	93.14
Units with permits issued as of 1/1/02	2,171,931	1,151	0.5471 per Bldg SF	0.5096 per Bldg SF	93.14
Units with permits issued as of 1/1/03	3,652,172	1,975	0.5566 per Bldg SF	0.5184 per Bldg SF	93.14
Units with permits issued as of 1/1/04	2,830,755	1,505	0.5566 per Bldg SF	0.5184 per Bldg SF	93.14
Units with permits issued as of 1/1/05	2,393,030	896	0.5675 per Bldg SF	0.5286 per Bldg SF	93.14
Units with permits issued as of 1/1/06	1,866,904	548	0.5786 per Bldg SF	0.5389 per Bldg SF	93.14
Units with permits issued as of 1/1/07	640,072	155	0.5858 per Bldg SF	0.5456 per Bldg SF	93.14
Units with permits issued as of 1/1/08	273,511	50	0.5973 per Bldg SF	0.5563 per Bldg SF	93.14
Units with permits issued as of 1/1/09	80,222	17	0.5973 per Bldg SF	0.5563 per Bldg SF	93.14
Units with permits issued as of 1/1/10	32,692	8	0.5973 per Bldg SF	0.5563 per Bldg SF	93.14
Units with permits issued as of 1/1/11	27,041	4	0.5973 per Bldg SF	0.5563 per Bldg SF	93.14
Units with permits issued as of 1/1/12	18,235	3	0.5983 per Bldg SF	0.5573 per Bldg SF	93.14
Units with permits issued as of 1/1/13	52,987	11	0.5983 per Bldg SF	0.5573 per Bldg SF	93.14
Units with permits issued as of 1/1/14	167,959	41	0.5983 per Bldg SF	0.5573 per Bldg SF	93.14
Units with permits issued as of 1/1/15	91,323	17	0.5983 per Bldg SF	0.5573 per Bldg SF	93.14
<b>Total/ Average</b>	<b>17,600,883</b>	<b>7,977</b>	<b>\$0.5586 per Bldg SF</b>	<b>\$0.5203 per Bldg SF</b>	<b>93.14%</b>
<b>Non-Residential Property</b>					
Property with permits issued as of 1/1/01		9.95	\$11,963.14 per Acre	\$11,142.54 per Acre	93.14%
Property with permits issued as of 1/1/02		1.29	11,971.92 per Acre	11,150.72 per Acre	93.14
Property with permits issued as of 1/1/03		27.09	12,174.60 per Acre	11,339.50 per Acre	93.14
Property with permits issued as of 1/1/04		20.18	12,174.60 per Acre	11,339.50 per Acre	93.14
Property with permits issued as of 1/1/05		3.72	12,413.31 per Acre	11,561.83 per Acre	93.14
Property with permits issued as of 1/1/07		3.95	12,816.29 per Acre	11,937.17 per Acre	93.14
Property with permits issued as of 1/1/08		1.55	13,067.57 per Acre	12,171.21 per Acre	93.14
Property with permits issued as of 1/1/09		1.82	13,067.57 per Acre	12,171.21 per Acre	93.14
Property with permits issued as of 1/1/12		0.31	13,089.90 per Acre	12,192.01 per Acre	93.14
<b>Total/ Average</b>		<b>69.85</b>	<b>\$12,236.80 per Acre</b>	<b>\$11,397.43 per Acre</b>	<b>93.14%</b>
Undeveloped Property		41.37	\$13,591.94 per Acre	\$0.00 per Acre	0.00%
Backup Special Tax		NA	\$10,799.73 per Acre	\$0.00 per Acre	0.00%

(1) Based on the Assigned Special Tax rate for Residential and Non-Residential Property, and the Maximum Special Tax rate for Undeveloped Property. The assigned and maximum Special Tax rates increase by 2.00% per year. See "SECURITY FOR THE 2015 BONDS – Rate and Method – Assigned Special Tax Rates."

(2) Estimated based on the scheduled debt service on the 2015 Bonds, and assuming debt service savings as a consequence of the refunding of the refunded Bonds goes to reduce future Special Tax levies.

Source: David Taussig & Associates, Inc.

The following Table 5 sets forth the net County assessed value of the Taxable Property in the Community Facilities District as of January 1 in each year from 2003 through 2014, and the percentage change in such values from the prior January 1.

**TABLE 5**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Summary of Net Assessed Values<sup>(1)</sup>**

As of January 1	Net Assessed Value <sup>(2)</sup>	Percent Change
2003	\$1,680,765,825	NA
2004	2,578,234,914	53.40%
2005	3,484,484,313	35.15
2006	4,242,904,365	21.77
2007	4,913,439,069	15.80
2008	4,862,052,318	-1.05
2009	4,315,028,280	-11.25
2010	4,286,263,962	-0.67
2011	4,276,842,063	-0.22
2012	4,236,595,413	-0.94
2013	4,281,838,769	1.07
2014	4,793,982,273	11.96

(1) Reflects value for Taxable Property only.

(2) Net assessed values as of January 1 for the respective calendar year.

Source: Orange County Assessor, as reported by David Taussig & Associates, Inc.

The following Table 6 sets forth the ten owners of the Taxable Property in the Community Facilities District responsible for the largest portion of the 2015-16 Special Tax levy, based on ownership data as of January 1, 2014 and the status of the Taxable Property as of January 1, 2015.

**TABLE 6**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Fiscal Year 2015-2016 Top 10 Taxpayers**

Property Owner <sup>(1)</sup>	Parcels Taxed	Tax Class	Estimated FY 2015-2016 Special Tax Levy <sup>(2)</sup>	Percent of Total Special Tax Levy
Mercantile East Ladera	11	Commercial	\$ 261,648	2.63%
Mercantile West Ladera	9	Commercial	168,811	1.70
Ladera Retail I	9	Commercial	112,684	1.13
Ladera WNG IV LLC	1	Residential	112,677	1.13
Ladera LLC	1	Residential	109,990	1.10
Ladera WNG II LLC	1	Residential	101,902	1.02
Ladera WNG LLC	1	Residential	94,325	0.95
CLPF-Remington at Ladera	1	Residential	89,124	0.90
Ladera WNG Seniors LLC	1	Residential	82,449	0.83
Stoneybrooke Christian Schools	1	Commercial	60,587	0.61
Subtotal	36	NA	\$1,194,196	12.00%
Individual Owners - Residential	6,677	Residential	\$8,567,685	86.07%
Individual Owners - Commercial	20	Commercial	192,396	1.93
Subtotal	6,697	NA	\$8,760,082	88.00%
<b>Total</b>	<b>6,733</b>	NA	<b>\$9,954,278</b>	<b>100.00%</b>

(1) Ownership data as of January 1, 2014 provided by the Orange County Assessor.

(2) Based on building permits issued as of January 1, 2015.

Source: David Taussig & Associates, Inc.

**Debt Service Coverage**

Table 7 below illustrates the aggregate estimated Net Taxes from levies on Developed Property expected to be available for the payment of debt service on the Senior Bonds and the 2015 Bonds. See "THE 2015 BONDS –Debt Service Schedule." See "THE COMMUNITY FACILITIES DISTRICT – Special Tax Delinquency" for information on historical Special Tax levies and delinquencies in the Community Facilities District. See also "THE COMMUNITY FACILITIES DISTRICT – Levy of Special Taxes to Applicable Maximum Rates" below and "BONDOWNERS' RISKS."

**TABLE 7**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Debt Service Coverage for Senior Bonds and 2015 Bonds**  
**from Net Taxes on Developed Property**

Bond Year Ending 1-Sep	Residential Developed Special Tax Revenues <sup>(1,2)</sup>	Non-Residential Developed Special Tax Revenues <sup>(1)</sup>	Annual Administrative Requirement <sup>(3)</sup>	Net Taxes	Senior Bonds Debt Service	2015 Bonds Debt Service <sup>(4)</sup>	Total Bond Debt Service	Coverage from Developed Property <sup>(5)</sup>
2016	\$9,158,148	\$796,126	\$150,000	\$9,804,278	\$0	\$7,231,413	\$7,231,413	135.58%
2017	10,029,257	871,853	153,000	10,748,110	0	7,387,644	7,387,644	145.49
2018	10,229,843	889,290	156,060	10,963,072	0	7,546,144	7,546,144	145.28
2019	10,434,439	907,075	159,181	11,182,334	0	7,696,644	7,696,644	145.29
2020	10,643,128	925,217	162,365	11,405,980	0	7,858,644	7,858,644	145.14
2021	10,855,991	943,721	165,612	11,634,100	0	8,015,644	8,015,644	145.14
2022	11,073,111	962,596	168,924	11,866,782	0	8,181,894	8,181,894	145.04
2023	11,294,573	981,848	172,303	12,104,118	0	8,356,094	8,356,094	144.85
2024	11,520,464	1,001,485	175,749	12,346,200	0	8,523,694	8,523,694	144.85
2025	11,750,874	1,021,514	179,264	12,593,124	0	8,709,294	8,709,294	144.59
2026	11,985,891	1,041,945	182,849	12,844,986	0	8,884,694	8,884,694	144.57
2027	12,225,609	1,062,783	186,506	13,101,886	0	9,068,600	9,068,600	144.48
2028	12,470,121	1,084,039	190,236	13,363,924	0	9,254,050	9,254,050	144.41
2029	12,719,524	1,105,720	194,041	13,631,202	0	9,448,400	9,448,400	144.27
2030	12,973,914	1,127,834	197,922	13,903,826	9,955,000	0	9,955,000	139.67
2031	13,233,392	1,150,391	201,880	14,181,903	9,955,000	0	9,955,000	142.46
2032	13,498,060	1,173,399	205,918	14,465,541	9,955,000	0	9,955,000	145.31
2033	13,768,021	1,196,867	210,036	14,754,852	9,955,000	0	9,955,000	148.22

- (1) Special Tax Revenues for fiscal year 2015-16 are equal to estimated levy of 93.14% of the Assigned Special Tax (based on the scheduled debt service on the 2015 Bonds, and assuming debt service savings as a consequence of the refunding of the Refunded Bonds goes to reduce future Special Tax levies). Special Tax Revenues for fiscal year 2016-17 and each year thereafter are based on 100% of the Assigned Special Tax rates. The Assigned Special Tax rates escalate by 2.00% per year. Assumes no future development.
  - (2) Pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the Community Facilities District by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the Community Facilities District may not be able to increase the Special Tax levy to the Assigned Special Tax in all years.
  - (3) Based on Administrative Expenses Cap. Amount is \$150,000 from September 2, 2015 to September 1, 2016, and escalates by 2.00% per year thereafter.
  - (4) Based on the scheduled debt service on the 2015 Bonds.
  - (5) Calculated by dividing the Net Taxes column by the Total Debt Service column.
- Source: David Taussig & Associates, Inc.

**Levy of Special Taxes to Applicable Maximum Rates**

The ability of the Community Facilities District to make annual debt service payments on the Senior Bonds and the 2015 Bonds is enhanced by its ability to levy Special Taxes up to its maximum rates in the event of delinquencies in the Community Facilities District. Until the 2014-15 Special Tax levy, the Community Facilities District levied Special Taxes on the Taxable Property in the Community Facilities District at the Assigned Annual Special Tax rate for the respective classes of Developed Property (approximately 98% of Assigned Special Tax for the 2014-15 levy). See "SECURITY FOR THE 2015 BONDS – Rate and Method – Assigned Special Tax Rates." In the event that delinquencies occur in the payment of Special Taxes within the Community Facilities District in any fiscal year, the Community Facilities District may increase the Special Tax levy up to the maximum rates as permitted in the Rate and Method in the following fiscal years if determined necessary to cure any delinquencies on the 2015 Bonds. In

the event the Community Facilities District levies Special Taxes on Developed Property at less than the Assigned Annual Special Tax, pursuant to Section 53321 of the Act, under no circumstances will the Special Tax to be levied against any parcel within the Community Facilities District used for private residential purposes (which includes all of the parcels of Residential Property in the Community Facilities District) be increased as a consequence of delinquency or default by the owner of any other parcel or parcels within the Community Facilities District by more than 10% of such lesser amount. In addition, an increase in the Special Tax rates may affect the ability or willingness of property owners to pay their Special Taxes. See "SECURITY FOR THE 2015 BONDS – Rate and Method" and Appendix B hereto for a description of the Community Facilities District's procedures for increasing the amount of Special Tax and "BONDOWNERS' RISKS– Insufficiency of the Special Tax."

### **Direct and Overlapping Debt**

Table 8 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District prepared by David Taussig & Associates, Inc. The information is included for general background purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase or decrease to reflect housing values. The Community Facilities District makes no representation as to its completeness or accuracy. Other public agencies may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District.

Table 8 generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. These long term obligations are payable from property taxes, assessment or special taxes on land in the Community Facilities District; however, in certain cases, long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. Additional indebtedness could be authorized by the School District, the County or other public agencies at any time.

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

**TABLE 8**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Detailed Direct and Overlapping Debt**

Overlapping District	Actual FY 2014- 2015 Total Levy	Amount of Levy on Parcels in District <sup>(1)</sup>	Percent of Levy on Parcels in District	Total Debt Outstanding <sup>(2)</sup>	District Share of Total Debt Outstanding
Orange County CFD No. 99-1	\$ 1,583,374	\$1,583,374	100.0000%	\$ 18,370,000	\$ 18,370,000
Orange County CFD No. 2000-1	2,013,645	2,013,645	100.0000	23,730,000	23,730,000
Orange County CFD No. 2001-1	2,153,608	2,153,608	100.0000	28,055,000	28,055,000
Orange County CFD No. 2002-1	4,186,308	4,186,308	100.0000	56,765,000	56,765,000
Orange County CFD No. 2003-1	3,305,905	3,305,905	100.0000	46,300,000	46,300,000
Orange County CFD No. 2004-1	4,698,226	4,698,226	100.0000	67,140,000	67,140,000
Santa Margarita Water District ID No. 4B	814,173	627,374	77.0566	9,355,000	7,208,642
Santa Margarita Water District ID No. 4 <sup>(3)</sup>	2,446,899	2,446,899	100.0000	26,507,847	26,507,847
Metropolitan Water District G.O. Bonds	100,066,262	168,079	0.1680	110,420,000	185,469
Estimated Share of Overlapping Debt Allocable to the Community Facilities District					\$274,261,958
Plus the Senior Bonds					\$16,692,146 <sup>(4)</sup>
Plus the 2015 Bonds					\$87,480,000 <sup>(5)</sup>
Estimated Share of Direct and Overlapping Debt Allocable to the Community Facilities District					\$378,434,104

(1) Based on the share of total levy for Fiscal Year 2014-2015 applicable to the property in the Community Facilities District.

(2) Based on outstanding principal as of March 2, 2015.

(3) Based on allocation by the Water District to the Ladera Ranch area for fiscal year 2014-2015 and on discussions with the Water District staff.

(4) Represents the Accreted Value of the Senior Bonds as of September 1, 2015 (maturity amount of \$39,820,000).

(5) The initial principal amount of the 2015 Bonds.

Source: Santa Margarita Water District and Metropolitan Water District, as reported by David Taussig & Associates, Inc.

### Special Tax Delinquency

Under the Indenture, the Community Facilities District has the authority and the obligation to increase the levy of Special Taxes against non-delinquent property owners if other owners in the Community Facilities District are delinquent. However, the Community Facilities District's ability to increase Special Tax levies for this purpose is limited by two factors: (a) the maximum Special Tax rates set forth in the Rate and Method and (b) the limitations on such increases imposed by Section 53321 of the Act, which provides that under no circumstances may the Special Tax levied against any parcel used for private residential purposes be increased as a consequence of delinquency or default by an owner of any other parcel or parcels within the Community Facilities District by more than 10%. Thus the Community Facilities District may not be able to increase Special Tax levies in future fiscal years by enough to make up for delinquencies for prior fiscal years. This could result in an insufficiency in the Net Taxes available for the payment of the scheduled principal and interest on the 2015 Bonds, which in turn could result in draws on the Reserve Account held by the Trustee for the 2015 Bonds.

Although the Community Facilities District has covenanted under its Indenture to commence and diligently pursue foreclosure under certain circumstances (see "SECURITY FOR THE 2015 BONDS – Proceeds of Foreclosure Sales"), foreclosure delays may occur due to

bankruptcy of delinquent property owners and other circumstances (see “ – Levy of Special Taxes to Applicable Maximum Rates” above and “BONDOWNERS’ RISKS”).

Delinquencies in the payment of property taxes and the Special Taxes may result from any of a number of factors, including the state of the local economy and the local real estate market affecting individual property owners, which may or may not apply to the property owners in the Community Facilities District. See “BONDOWNERS’ RISKS” generally for discussion of certain potential causes of property tax delinquencies.

The following table sets forth the historical delinquencies for Special Taxes levied on Taxable Property in the Community Facilities District from Fiscal Year 1999-2000, to and including information regarding the second installment for Fiscal Year 2014-15.

**TABLE 9**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**  
**Special Tax Collections and Delinquencies<sup>(1)</sup>**

Fiscal Year	Total Special Tax Levy	Number of Delinquent Parcels at FY End <sup>(2)</sup>	Total Delinquent Special Taxes at FY End <sup>(2)</sup>	Percent of Delinquency of Annual Special Tax Levy <sup>(2)</sup>	Remaining Delinquent Amount as of 6/30/2015 <sup>(3)</sup>	Remaining Delinquency Rate as of 6/30/2015
1999-2000	\$ 150,185	0	\$ 0	0.00%	\$ 0	0.00%
2000-2001	2,638,994	19	9,631	0.36	0	0.00
2001-2002	4,075,942	52	32,035	0.79	0	0.00
2002-2003	4,109,487	55	36,195	0.88	0	0.00
2003-2004	5,346,968	73	46,483	0.87	0	0.00
2004-2005	5,869,196	137	90,026	1.53	0	0.00
2005-2006	7,123,769	236	167,760	2.35	0	0.00
2006-2007	8,170,116	281	331,251	4.05	2,195 <sup>(4)</sup>	0.03
2007-2008	8,701,769	497	495,277	5.69	2,688 <sup>(4)</sup>	0.03
2008-2009	9,038,602	500	556,004	6.15	2,284 <sup>(4)</sup>	0.03
2009-2010	9,286,228	322	362,734	3.91	4,220 <sup>(4)</sup>	0.05
2010-2011	9,489,153	201	201,120	2.12	3,654 <sup>(4)</sup>	0.04
2011-2012	9,697,065	186	194,076	2.00	7,774	0.08
2012-2013	9,915,333	122	124,937	1.26	8,332	0.08
2013-2014	10,137,865	99	105,486	1.04	26,918	0.27
2014-2015	10,235,192	107	115,936	1.13	115,936	1.13

(1) The Community Facilities District is a participant in the County’s Teeter Plan. See “SECURITY FOR THE 2015 BONDS – Alternative Method of Tax Apportionment.”

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

(3) Amount delinquent as of June 30, 2015 as provided by the County of Orange Treasurer-Tax Collector.

(4) Includes delinquent amount for one parcel which exceeded the delinquency threshold as of October 1, 2011. The Community Facilities District approved a certificate authorizing commencement of foreclosure proceedings on October 8, 2014 for such parcel.

Source: David Taussig & Associates, Inc.

### Estimated Property Values and Estimated Value-to-Lien Ratios

Table 10 below sets forth the assessed value and value-to-lien category ranges for the parcels subject to the levy of Special Taxes in Fiscal Year 2014-15 utilizing the assessed values for those parcels as of January 1, 2014. All information in this section is based on the direct and overlapping debt report as set forth in Table 8 under the heading “THE COMMUNITY FACILITIES DISTRICT – Direct and Overlapping Debt.”



**TABLE 10**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**  
**Assessed Value and Value-to-Lien Ratio**

Value-to-Lien Range	Number of Parcels Taxed	Estimated FY 2015-16 Special Tax Levy <sup>(1)*</sup>	Percentage of Estimated FY 2015-16 Special Tax Levy*	Allocable Portion of Bonds outstanding <sup>(2)</sup>	OC Bonds outstanding <sup>(3)</sup>	SMWD Bonds outstanding <sup>(3)</sup>	MWD Bonds outstanding <sup>(3)</sup>	Total Direct and Overlapping Debt	FY 2014-15 Net Assessed Value <sup>(4)</sup>	Estimated Assessed Value-to-Lien Ratios*
0-0.99	3 <sup>(5)</sup>	\$66,164	0.66%	\$692,407	\$868,814	\$172,572	\$0	\$1,733,793	\$0	0.00 to 1
1.00-2.99	9 <sup>(6)</sup>	18,476	0.19	193,356	584,962	29,168	84	807,571	2,183,711	2.70 to 1
3.00-4.99	37	93,245	0.94	975,815	2,471,242	170,687	549	3,618,293	14,223,197	3.93 to 1
5.00-9.99	692	1,319,804	13.26	13,811,829	33,795,649	2,859,331	16,924	50,483,733	438,201,248	8.68 to 1
10.00-19.99	5,947	8,256,901	82.95	86,408,997	197,278,203	29,441,745	162,355	313,291,301	4,195,491,374	13.39 to 1
20.00 or Greater	45	199,687	2.01	2,089,741	1,922,503	492,306	4,233	4,508,784	109,613,065	24.31 to 1
<b>Totals</b>	<b>6,733</b>	<b>\$9,954,278</b>	<b>100.00%</b>	<b>\$104,172,146</b>	<b>\$236,921,374</b>	<b>\$33,165,810</b>	<b>\$184,146</b>	<b>\$374,443,475</b>	<b>\$4,759,712,595</b>	<b>12.71 to 1</b>

- (1) Based on the initial principal amount of 2015 Bonds of \$89,725,000. Also assumes debt service savings as a consequence of the refunding of the Refunded Bonds goes to reduce future Special Tax levies.
- (2) Based on the estimated scheduled debt service on the 2015 Bonds, and the accreted value of the Senior Bonds of \$16,692,146 as of September 1, 2015.
- (3) As of May 19, 2015. Allocated based on fiscal year 2014-2015 Special Tax levy.
- (4) Fiscal Year 2014-2015 net assessed values as of January 1, 2014, as provided by the Orange County Assessor.
- (5) Includes three parcels considered school/day care property that are taxed in the Community Facilities District.
- (6) All 9 lots have building permits which were issued from 5/8/02 through 9/7/14 and are all owned by individuals. Four of the nine lots with permits issued from 2/20/14 through 9/17/14 do not yet have an improvement value as of 1/1/14. The remaining five lots have utilized the Prop 60/90 value reduction and, as a result, have a net assessed value of less than \$141,000 each.

Source: David Taussig & Associates, Inc.

The assessed values of the Taxable Property, direct and overlapping debt and total tax burden on individual parcels vary among parcels within the Community Facilities District. The value of individual parcels is significant because in the event of a delinquency in the payment of Special Taxes, the Community Facilities District may foreclose only against delinquent parcels of the Community Facilities District. Moreover, the assessed valuation may not be representative of the actual market value of property in the Community Facilities District because Article XIII A of the California Constitution limits any increase in assessed value to no more than 2% a year unless a property is sold or transferred. See "BONDOWNER'S RISKS – Land Values." As a consequence, assessed values may be less than actual market values unless the property has recently changed ownership or has been reassessed.

Table 11 below sets forth the estimated value-to-lien ratio for the Taxable Parcels in the Community Facilities District based on their respective ownerships as of January 1, 2014.

**TABLE 11**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Value-to-Lien Ratios by Ownership**

Property Classification/Owner <sup>(1)</sup>	Number of Parcels	Estimated FY 2015-2016 Special Tax Levy <sup>(2)</sup>	Bonds Outstanding <sup>(3)</sup>	Orange County CFD Bonds Outstanding <sup>(4)</sup>	SMWD GO Bonds Outstanding <sup>(4)</sup>	MWD GO Bonds Outstanding <sup>(4)</sup>	Total Direct and Overlapping Debt	Net Assessed Value <sup>(5)</sup>	Estimated Assessed Value-to-Lien Ratio
Developed Property <sup>(6)</sup>									
Residential Property <sup>(7)</sup>									
Individual Owner	6,648	\$8,504,010	\$88,995,005	\$212,062,609	\$30,738,684	\$167,157	\$331,963,455	\$4,319,826,583	13.01
CLPF-Remington at Ladera	1	89,124	932,692	1,215,429	247,396	1,404	2,396,921	36,340,176	15.16
DMB Ladera LLC <sup>(8)</sup>	3	6,308	66,016	0	7,687	18	73,721	478,374	6.49
Ladera WNG II LLC	1	101,902	1,066,407	1,860,702	143,588	1,484	3,072,182	38,424,526	12.51
Ladera WNG IV LLC	1	112,677	1,179,169	2,315,103	133,955	1,400	3,629,628	36,254,612	9.99
Ladera WNG LLC	1	94,325	987,113	1,636,850	119,106	1,171	2,744,240	30,315,698	11.05
Ladera WNG Seniors LLC	1	82,449	862,836	1,364,480	82,823	909	2,311,047	23,540,402	10.19
Ladera LLC	1	109,990	1,151,051	2,441,382	287,820	2,684	3,882,937	69,507,030	17.90
Warmington Legacy	23	48,279	505,240	2,245,700	192,675	788	2,944,403	20,405,883	6.93
William Lyon Homes	3	9,088	95,110	235,367	35,432	85	365,995	2,205,000	6.02
Subtotal	6,683	\$9,158,152	\$95,840,639	\$225,377,621	\$31,989,167	\$177,101	\$353,384,529	\$4,577,298,284	12.95
Commercial Property									
Ladera Retail I	9	\$112,684	\$1,179,244	\$1,513,881	\$106,241	\$774	\$2,800,140	\$20,042,385	7.16
Mercantile East Ladera	11	261,648	2,738,159	4,225,520	410,534	2,011	7,376,224	52,074,068	7.06
Mercantile West Ladera	9	168,811	1,766,616	2,224,860	213,446	1,281	4,206,202	33,157,697	7.88
Stoneybrooke Christian Schools <sup>(9)</sup>	1	60,587	634,046	834,805	73,127	0	1,541,977	0	0.00
Other Owners	20	192,396	2,013,441	2,744,687	373,296	2,979	5,134,403	77,140,161	15.02
Subtotal	50	\$796,126	\$8,331,507	\$11,543,752	\$1,176,642	\$7,045	\$21,058,946	\$182,414,311	8.66
Subtotal for Developed Property	6,733	\$9,954,278	\$104,172,146	\$236,921,373	\$33,165,810	\$184,146	\$374,443,475	\$4,759,712,595	12.71
Undeveloped Property <sup>(10)</sup>	99	\$0	\$0	\$3,438,627	\$550,678	\$1,324	\$3,990,629	\$34,269,678	8.59
<b>TOTALS</b>	<b>6,832</b>	<b>\$9,954,278</b>	<b>\$104,172,146</b>	<b>\$240,360,000</b>	<b>\$33,716,488</b>	<b>\$185,469</b>	<b>\$378,434,104</b>	<b>\$4,793,982,273</b>	<b>12.67</b>

- (1) Reflects ownership as January 1, 2014 as provided by the Orange County Assessor.
- (2) Based on the initial principal amount of 2015 Bonds. Also assumes debt service savings as a consequence of the refunding of the Refunded Bonds goes to reduce future Special Tax levies.
- (3) Based on the scheduled debt service on the 2015 Bonds and the accreted value of the Senior Bonds of \$16,692,146 as of September 1, 2015. Allocated based on share of estimated Fiscal Year 2015-2016 levy.
- (4) As of March 2, 2015. Allocated based on Fiscal Year 2014-2015 levy.
- (5) Fiscal Year 2014-2015 net assessed values as of January 1, 2014 as provided by the Orange County Assessor.
- (6) Property for which a building permit was issued prior to January 1, 2015.
- (7) Does not include 11 lots that were previously permitted, but are now owned by the Property Owners Association (Ladera Ranch Maintenance) for Ladera Ranch. Pursuant to the Rate and Method, the Property Owners Association property will not be subject to the Special Tax levy.
- (8) Property was considered Undeveloped Property last year since the building permits for all three lots were issued after the January 1, 2014 cutoff. They will be taxed as Developed Property beginning in Fiscal Year 2015-2016.
- (9) Property is considered wholly exempt by the County and has no net value. Property is not subject to the Special Tax levy.
- (10) Property for which a building permit had not yet been issued as of January 1, 2015.

Source: David Taussig & Associates, Inc.

### Tax Burden on Single-Family Home

The base property tax rate on property in the Community Facilities District is 1% of the net assessed value of a parcel; and the levy of special ad valorem property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness. Additionally, property in the District is also subject to certain annual charges and assessments.

The Table below sets forth the typical ad valorem tax rates for one of the tax rate areas for property in the Community Facilities District for the last 3 fiscal years.

**TABLE 12**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Typical Tax Rates TRA 82-374<sup>(1)</sup>**

Ad Valorem Property Taxes	FY 2012-13 Tax Rate	FY 2013-14 Tax Rate	FY 2014-15 T ax Rate
Basic Levy	1.00000%	1.00000%	1.00000%
Metropolitan Water District	0.00350	0.00350	0.00350
Santa Margarita Water District ID No. 4	0.16370	0.16060	0.11520
Santa Margarita Water District ID No. 4D	0.04400	0.04070	0.02990
Total Ad Valorem Property Tax Rate on All Property	1.00350	1.00350	1.00350
Total Ad Valorem Property Tax Rate on Land Only	0.20770	0.20130	0.14510

(1) There are a total of eight tax rate areas in CFD No. 98-2. All eight TRAs have the same tax rates for FY 2014-15. A representative tax rate area, Tax Rate Area 82-374 has a Fiscal Year 2014-15 net assessed valuation of \$716,564,846, representing approximately 14.92% of CFD No. 2004-1's taxable assessed valuation.  
Source: David Taussig & Associates, Inc.

The following Table 13 sets forth the projected total effective property tax for certain residential lots owned by individuals in the Community Facilities District, based on the overlapping County community facilities district in which they are located, and their respective land use.

**TABLE 13**  
**Community Facilities District No. 98-2 of the**  
**Capistrano Unified School District**  
**(Ladera)**  
**2015 Subordinate Special Tax Refunding Bonds**

**Aggregate Effective Tax Rates**

OC CFD No.	Number of Units	Included Land Use	Projected Total Effective Tax Rate (Expected Amount)	Projected Total Effective Tax Rate (Maximum Amount)
1999-1	960	All SFR	1.52620%	1.66703%
2000-1	978	All SFR	1.54560	1.70079
2001-1	1,319	All SFR	1.54140	1.78483
2002-1	856	SFD	1.72622	1.90974
2003-1	639	SFD	1.70254	1.99164
2004-1	690	SFD	1.61346	1.91977
2004-1	142	Custom Lot	1.74035	1.97686

Source: David Taussig & Associates, Inc.

Although the Special Tax constitutes a lien on parcels subject to taxation within the Community Facilities District, it does not constitute a personal indebtedness of the owners of property within the Community Facilities District. There is no assurance that the owners will be financially able to pay the annual Special Tax or that they will pay such tax even if financially able to do so. The risk of the property owners not paying the annual Special Tax is more fully described in "BONDOWNERS' RISKS."

## **BONDOWNERS' RISKS**

In addition to the other information contained in this Official Statement, the following risk factors should be carefully considered in evaluating the investment quality of the 2015 Bonds. The Community Facilities District cautions prospective investors that this discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2015 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay Special Taxes levied on the Taxable Property when due. Any such failure to pay Special Taxes could result in the inability of the Community Facilities District to make full and punctual payments of debt service on the 2015 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.

### **The 2015 Bonds Are Limited Obligations of the Community Facilities District**

The Community Facilities District has no obligation to pay principal of and interest on the 2015 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Reserve Account or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance any of its other funds to pay such debt service on the 2015 Bonds.

### **2015 Bonds Subordinate to Senior Bonds**

Under the provisions of the Indenture, the Special Taxes available to pay the Administrative Expense Requirement and the scheduled debt service on the 2015 Bonds consists of the Gross Taxes. Gross Taxes is defined in the Indenture as the Special Taxes paid to the Trustee by the District or the 2005 Fiscal Agent in accordance with the 2005 Indenture. The 2005 Indenture provides that Special Taxes received by the Community Facilities District, after the deposit required thereunder to the Administrative Expense Fund held by the 2005 Fiscal Agent are to be remitted to the Trustee for deposit under the Indenture.

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

The 2015 Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of residential property in the event of sale or foreclosure; (ii) changes in real estate tax rate and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, fires and floods), which may result in uninsured losses.

### **Risks Related to Changing Market Conditions**

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006, but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices. From 2006 to 2012, home developers, appraisers and market absorption consultants have reported weak new home

market conditions due to factors including, but not limited to, the following: (i) lower demand for new homes; (ii) significant increase in cancellation rates for homes under contract; (iii) the exit of speculators from the new home market; (iv) increasing mortgage defaults and foreclosures; (v) a growing supply of new and existing homes available for purchase; (vi) increase in competition for new homes orders; (vii) prospective home buyers having a more difficult time selling their existing homes in the more competitive environment; (viii) reduced sales prices and/or higher incentives required to stimulate new home orders or to induce home buyers not to cancel purchase contracts; (ix) more stringent credit qualification requirements by home loan providers and (x) increased unemployment levels. Any such factors may affect the willingness or ability of taxpayers to pay their Special Tax payment prior to delinquency. Recently, housing market conditions have improved, but could change at any time in the future.

### **Special Taxes Are Not Personal Obligations**

The current and future owners of land within the Community Facilities District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the Community Facilities District. If the value of the land within the Community Facilities District is not sufficient to fully secure the Special Tax, then the Community Facilities District has no recourse against the landowner under the laws by which the Special Tax has been levied and the 2015 Bonds have been issued.

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

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

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

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2015 Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the 2015 Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy.

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

### **Disclosure to Future Purchasers**

The Community Facilities District has recorded a Notice of Special Tax Lien. See “THE COMMUNITY FACILITIES DISTRICT – History of the Community Facilities District.” While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel of land or a home in the Community Facilities District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers, other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels of Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the value of a Taxable Property that is realizable upon a delinquency.

### **Insufficiency of the Special Tax**

The principal source of payment of principal of and interest on the 2015 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates under the Rate and Method. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2015 Bonds. Other funds which might be available include funds derived from the payment of penalties on delinquent Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular Taxable Property and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such parcels and the proportionate share of debt service on the 2015 Bonds, and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs of the Community Facilities District and the application of the Rate and Method. Application of the Rate and Method will, in turn, be dependent upon certain development

factors with respect to each Taxable Property by comparison with similar development factors with respect to the other Taxable Property within the Community Facilities District. Thus, in addition to annual variations of the revenue needs from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular Taxable Property to vary from the Special Tax that might otherwise be expected:

(1) Reduction in the amount of Taxable Property, for such reasons as acquisition of Taxable Property by a government and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining parcels of Taxable Property.

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

Except as set forth above under "SECURITY FOR THE 2015 BONDS – Special Taxes" and "–Rate and Method" herein, the Indenture provides that the Special Tax is to be collected in the same manner as ordinary ad valorem property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE 2015 BONDS – Proceeds of Foreclosure Sales" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ad valorem property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County. In situations where the County has paid to the Community Facilities District the amount of the Special Tax levied on a parcel, the all foreclosure proceeds, including penalties and interest, will be paid to the County. See "SECURITY FOR THE 2015 BONDS-Proceeds of Foreclosure Sales."

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2015 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the Community Facilities District of the proceeds of sale if the Reserve Account is depleted. See "SECURITY FOR THE 2015 BONDS– Proceeds of Foreclosure Sales."

In addition, the Rate and Method limits the increase of Special Taxes levied on parcels of Developed Property to cure delinquencies of other property owners in the Community Facilities District. See "SECURITY FOR THE 2015 BONDS – Rate and Method" and "– Special Tax Delinquency" herein.

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see Appendix B – Rate and Method). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the Community Facilities District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not

been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Special Tax.

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

### **Depletion of Reserve Account**

The Reserve Account is to be maintained at an amount equal to the Reserve Requirement (see "SECURITY FOR THE 2015 BONDS – Reserve Account" herein). Funds in the Reserve Account may be used to pay principal of and interest on the 2015 Bonds and Parity Bonds in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District are insufficient. If funds in the Reserve Account for the 2015 Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the 2015 Bondowners pursuant to the Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District, at the maximum tax rates permitted under the Rate and Method, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Account will be depleted and not be replenished by the levy of the Special Tax.

### **Discontinuance of Advancement of the Special Tax**

The County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the Community Facilities District, with full tax and assessment levies instead of actual tax and assessment collections. In return the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may help protect owners from the risk of delinquencies in the payment of special taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to the Community Facilities District would eliminate such protection from delinquent Special Taxes for the Community Facilities District. See "SECURITY FOR THE 2015 BONDS – Alternative Method of Tax Apportionment."

### **Potential Delay and Limitations in Foreclosure Proceedings**

The payment of property owners' taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE 2015 BONDS – Proceeds of Foreclosure Sales" and "BONDOWNERS' RISKS – Bankruptcy and Foreclosure Delay" herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

The ability of the Community Facilities District to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC") has or obtains an interest. The FDIC would obtain such an interest by



taking over a financial institution which has made a loan which is secured by property within the Community Facilities District. See “BONDOWNERS’ RISKS – Payments by FDIC and Other Federal Agencies” herein.

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

The Community Facilities District is unable to predict what effect the application of a policy statement by the FDIC regarding payment of state and local real property taxes would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would likely reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale.

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond the control of the Community Facilities District or the School District. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes may take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the “minimum bid amount” which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys’ fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single “bulk” foreclosure sale. If any parcel fails to obtain a “minimum bid,” the Community Facilities District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such superior court approval requires the consent of the owners of 75% of the aggregate principal amount of the outstanding 2015 Bonds and any Parity Bonds.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings could result in the rapid, total depletion of the Reserve Account prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2015 Bonds. See “COMMUNITY FACILITIES DISTRICT – Special Tax Delinquency” above.

### **Bankruptcy and Foreclosure Delay**

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of a delinquent Special Taxes as discussed in the section herein entitled “SECURITY FOR THE 2015 BONDS” may be limited by bankruptcy, insolvency, or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

The various legal opinions to be delivered concurrently with the delivery of the 2015 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the obligation to pay the Special Tax to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Taxes, a delay in prosecuting superior court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Special Taxes and could result in the possibility of delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2015 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments.

#### **Payments by FDIC and Other Federal Agencies**

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

*Mortgage Interests.* 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 but does not pay taxes and assessments levied on the parcel, 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 " – Potential Delay and Limitations in Foreclosure Proceedings" above.

The Community Facilities District has not otherwise 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 extent to which the risks described above will materialize while the 2015 Bonds are outstanding.

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

The Policy Statement states that the FDIC generally will not pay non ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year, are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. With respect to property in California owned by the FDIC on January 9, 1997, and that was owned by the Resolution Trust Corporation (the "RTC") on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency on a parcel within the Community Facilities District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the 2015 Bonds should assume that the Community Facilities District will be unable to collect Special Taxes or to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the 2015 Bonds. The Community Facilities District expresses no view concerning the likelihood that the risks described above will materialize while the 2015 Bonds are outstanding.

## **Property Values**

The value of the real property within the Community Facilities District subject to the Special Tax is an important factor in evaluating the investment quality of the 2015 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 2015 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.

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 Orange County Assessor, generally not to exceed an increase of more than 2% per Fiscal Year as limited by Proposition 13, as amended by Proposition 8. Several counties in the State, including the County have reassessed certain properties acquired at the peak of the real estate market. The Community Facilities District cannot predict whether the County will, in the future, reduce assessed values within the Community Facilities District. Accordingly, if the County did decide to broadly reassess recent home transactions in the County, it is possible that in future years the assessed values shown in this Official Statement could be adjusted downward from the values reflected on the Fiscal Year 2014-15 Assessor's Roll. No assurance can be given that Fiscal Year 2014-15 assessed values reflect market values or that a parcel could actually be sold for its assessed value.

The actual market value of the property is subject to future events such as a downturn in the economy, occurrences of certain acts of nature and the decisions of various governmental agencies as to land use, all of which could adversely impact the value of the land in the Community Facilities District, which is the security for the 2015 Bonds. As discussed herein, many factors could adversely affect property values within the Community Facilities District.

### **Factors Affecting Parcel Values and Aggregate Value**

*Geologic, Topographic and Climatic Conditions.* The value of the Taxable Property in the Community Facilities District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the parcels of Taxable Property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides, liquefaction, floods or fires, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

*Seismic Conditions.* The Community Facilities District, like all California communities, may be subject to unpredictable seismic activity. The occurrence of seismic activity in 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 and could affect the ability or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of seismic activity could result in greater reliance on undeveloped property in the payment of Special Taxes.

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

*Hazardous Substances.* While government taxes, assessments, and charges are a common claim against the value of a taxed parcel, other less common claims can occur. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Taxes is a claim with regard to hazardous substances. 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 "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) may be obligated to remedy a hazardous substance condition of property 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 be affected by a hazardous substance, would be to reduce the marketability and value by the costs of remedying the condition, because the purchaser, upon becoming owner, may become obligated to remedy the condition just as is the seller.

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

Further, it is possible that liabilities may arise in the future with respect to any of the land within the Community Facilities District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly adversely affect the value of a parcel and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

*Legal Requirements.* Other events which may affect the value of a parcel of Taxable Property in the Community Facilities District include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

## **No Acceleration Provisions**

The 2015 Bonds do not contain a provision allowing for the acceleration of the 2015 Bonds in the event of a payment default or other default under the terms of the 2015 Bonds or the Indenture. Pursuant to the Indenture, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see Appendix C – Summary of Certain Provisions of the Indenture). So long as the 2015 Bonds are in book-entry form, DTC will be the sole Bondowner and will be entitled to exercise all rights and remedies of Bondowner.

## **Community Facilities District Formation**

California voters, on June 6, 1978, approved an amendment (“Article XIII A”) to the California Constitution. Section 4 of Article XIII A, requires a vote of two-thirds of the qualified electorate to impose “special taxes,” or any additional ad valorem, sales or transaction taxes on real property. At an election held in the Community Facilities District pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance the facilities and approved the Rate and Method. The Supreme Court of the State has not yet decided whether landowner elections (as opposed to resident elections) satisfy requirements of Section 4 of Article XIII A, nor has the Supreme Court decided whether the special taxes of a community facilities district constitute a “special tax” for purposes of Article XIII A.

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

## **Billing of Special Taxes**

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

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See “SECURITY FOR THE 2015 BONDS – Proceeds of Foreclosure Sales” for a discussion of the provisions which apply and procedures which the Community Facilities District is obligated to follow in the event of delinquency in the payment of installments of Special Taxes.

## **Inability to Collect Special Taxes**

In order to pay debt service on the 2015 Bonds, it is necessary that the Special Tax levied against land within the Community Facilities District be paid in a timely manner. The Community Facilities District will covenant in the Indenture under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2015 Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the owners of the 2015 Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Although the Act authorizes the Board of Trustees to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board of Trustees with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SECURITY FOR THE 2015 BONDS – Proceeds of Foreclosure Sales."

## **Right to Vote on Taxes Act**

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

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2015 Bonds.

It may be possible, however, for voters of the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2015

Bonds but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2015 Bonds.

Like its antecedents, the Initiative is likely to undergo both judicial and legislative scrutiny before its impact on the Community Facilities District and its obligations can be determined. Certain provisions of the Initiative may be examined by the courts for their constitutionality under both State and federal constitutional law. The Community Facilities District is not able to predict the outcome of any such examination or the impact on the Community Facilities District or the 2015 Bonds.

The foregoing discussion of the Initiative should not be considered an exhaustive or authoritative treatment of the issues. The Community Facilities District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of the Initiative on the 2015 Bonds as well as the market for and the market value of the 2015 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of the Initiative.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2015 Bonds or, if a secondary market exists, that such 2015 Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of credit rating for the 2015 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS," the interest on the 2015 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds as a result of future acts or omissions of the Community Facilities District in violation of certain provisions of the Code and the covenants of the Indenture. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2015 Bonds, the Community Facilities District will covenant in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2015 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2015 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Indenture. See "THE 2015 BONDS – Redemption."



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

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015 Bonds will be selected for audit by the IRS. It is also possible that the market value of such 2015 Bonds might be affected as a result of such an audit of such 2015 Bonds (or by an audit of similar bonds or securities).

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

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2015 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the 2015 Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of or marketability of, the 2015 Bonds. Legislative changes have been proposed in Congress, which, if enacted would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the 2015 Bonds. Prospective purchasers of the 2015 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion.

## **Limitations on Remedies**

Remedies available to the 2015 Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2015 Bonds or to preserve the tax-exempt status of the 2015 Bonds. See the following subheading, above: "Payments by FDIC and other Federal Agencies," "No Acceleration Provisions" and "Billing of Special Taxes."

## **TAX MATTERS**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2015 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. However, Bond Counsel notes that, with respect to corporations, interest (and original issue discount) on the 2015 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from State personal income tax.

The difference between the issue price of a 2015 Bond (the first price at which a substantial amount of the 2015 Bond of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2015 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2015 Bond Owner will increase the 2015 Bond Owner's basis in the 2015 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2015 Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of

tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2015 Bonds is based upon certain representations of fact and certifications made by the Community Facilities District and others and is subject to the condition that the Community Facilities District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2015 Bonds to assure that interest (and original issue discount) on the 2015 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2015 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds. The Community Facilities District will covenant in the Indenture to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable 2015 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2015 Bond Owner's basis in the applicable 2015 Bond (and the amount of tax exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2015 Bond premium may result in a Bond Owner realizing a taxable gain when a 2015 Bond is sold by the 2015 Bond Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015 Bond to the 2015 Bond Owner. Purchasers of the 2015 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The IRS has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the 2015 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015 Bonds might be affected as a result of such an audit of the 2015 Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2015 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2015 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2015 BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2015 BONDS OR THE MARKET VALUE OF THE 2015 BONDS. LEGISLATIVE CHANGES HAVE BEEN INTRODUCED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2015 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2015 BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2015 BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2015 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2015 BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to

determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2015 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of nationally-recognized bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2015 Bonds for federal income tax purposes with respect to any 2015 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the 2015 Bonds is excluded from gross income for federal income tax purposes provided that the Community Facilities District continues to comply with certain requirements of the Code, the ownership of the 2015 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2015 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2015 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2015 Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX E.

## **LEGAL MATTERS**

### **Legal Opinion**

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the 2015 Bonds, in substantially the form set forth as Appendix E hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the Community Facilities District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Special Counsel to the Community Facilities District. Quint & Thimmig LLP, Larkspur, California, is serving as Disclosure Counsel.

Bond Counsel has advised that it has undertaken no responsibility for the accuracy, completeness or fairness of this Official Statement.

### **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the 2015 Bonds. There is no action, suit or proceeding known by the Community Facilities District or the School District to be pending at the present time restraining or enjoining the delivery of the 2015 Bonds or in any way contesting or affecting the validity of the 2015 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof.

### **No General Obligation of School District or Community Facilities District**

The 2015 Bonds are not general obligations of the School District or the Community Facilities District, but are limited obligations of the Community Facilities District payable solely from proceeds of the Special Tax and proceeds of the 2015 Bonds, including amounts in the Reserve Account and investment income on funds held pursuant to the Indenture (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2015 Bonds shall be limited to the Special Taxes to be collected within the Community Facilities District.

## **RATINGS**

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") is expected to assign the rating of "AA" to the Insured Bonds based on the issuance of the Municipal Bond Insurance Policy by BAM at the time of delivery of the 2015 Bonds. See "MUNICIPAL BOND INSURANCE." In addition, S&P has assigned the underlying rating of "BBB+" to all of the 2015 Bonds without regard to the issuance of the Municipal Bond Insurance Policy. These ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained from S&P at 55 Water Street, New York, NY 10041. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2015 Bonds.

## **FINANCIAL ADVISOR**

Government Financial Strategies inc. has been employed by the School District to perform financial advisory services in relation to the sale and delivery of the 2015 Bonds. Government Financial Strategies inc., in its capacity as financial advisor, has participated in drafting this Official Statement. Government Financial Strategies inc. has not, however, independently verified nor confirmed all of the information contained within this Official Statement. Government Financial Strategies inc. will not participate in the underwriting of the 2015 Bonds. Fees charged by Government Financial Strategies inc. related to the 2015 Bonds are not contingent upon the sale of the 2015 Bonds.

## **UNDERWRITING**

The 2015 Bonds are being purchased by Morgan Stanley & Co. LLC (the "Underwriter") at a purchase price of \$90,224,846.26 (which represents the aggregate principal amount of the 2015 Bonds of \$87,480,000.00, plus a net original issue premium of \$3,325,726.70, and less an underwriter's discount of \$580,880.44).

Morgan Stanley, parent company of the Underwriter, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, the Underwriter may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Underwriter may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2015 Bonds.

The purchase agreement relating to the 2015 Bonds provides that the Underwriter will purchase all of the 2015 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2015 Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## **PROFESSIONAL FEES**

Fees payable to certain professionals, including Quint & Thimmig LLP, as Disclosure Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, U.S.

Bank National Association, as the Trustee and Escrow Bank, and the Verification Agent, are contingent upon the issuance of the 2015 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant, are in part contingent upon the issuance of the 2015 Bonds.

**MISCELLANEOUS**

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the Community Facilities District and the purchasers or owners of any of the 2015 Bonds.

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

COMMUNITY FACILITIES DISTRICT NO.  
98-2 OF THE CAPISTRANO UNIFIED  
SCHOOL DISTRICT (LADERA)

By:                               /s/ Kirsten M. Vital                                
Superintendent of the Capistrano Unified  
School District on behalf of Community  
Facilities District No. 98-2 of the Capistrano  
Unified School District (Ladera)

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## APPENDIX A

### GENERAL INFORMATION REGARDING THE COUNTY OF ORANGE

*The following information concerning the County of Orange is included only for the purpose of supplying general information regarding the community. The 2015 Bonds are not a debt of the County, the State or any of its political subdivisions, and none of the County, the State nor any of its political subdivisions is liable therefor.*

#### General

The County is the third-most populous county in California, the sixth-most populous in the United States, and it more populous than twenty-one U.S. states. Orange County is included in the Los Angeles-Long Beach-Anaheim, CA Metropolitan Statistical Area. Thirty-four incorporated cities are located in the County; the newest is Aliso Viejo, which was incorporated in 2001. Whereas most population centers in the United States tend to be identified by a major city, there is no defined urban center in Orange County. The County is mostly suburban except for some traditionally urban areas at the centers of the older cities of Anaheim, Fullerton, Huntington Beach, Orange, and Santa Ana.

#### Population

The table below summarizes population of the County for the past five years.

#### ORANGE COUNTY Population

<u>Year</u>	<u>Orange County</u>
2011	3,028,846
2012	3,057,233
2013	3,087,715
2014	3,114,209
2015	3,147,655

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2011-2015, with 2010 Census Benchmark.

## Employment

The following table summarizes the historical numbers of workers by industry in Orange County for the last five years:

**ORANGE COUNTY  
SANTA ANA ANAHEIM IRVINE MD  
Labor Force and Industry Employment  
Annual Averages by Industry**

	2010	2011	2012	2013	2014 <sup>(1)</sup>
Total, All Industries	1,370,400	1,385,600	1,422,400	1,462,400	1,498,700
Total Farm	3,700	3,200	2,800	2,900	2,800
Mining and Logging	600	600	600	600	700
Construction	68,000	69,200	71,300	76,800	82,000
Manufacturing	150,500	154,300	158,300	158,000	158,800
Wholesale Trade	77,800	77,300	77,200	79,400	81,700
Retail Trade	141,300	142,600	144,000	145,500	148,700
Transportation, Warehousing & Utilities	26,700	27,500	28,000	27,500	26,600
Information	24,800	23,800	24,300	25,000	24,200
Financial Activities	103,500	104,800	108,300	113,100	114,100
Professional & Business Services	244,900	247,700	260,600	267,300	275,800
Educational & Health Services	165,500	168,000	173,800	184,200	190,300
Leisure & Hospitality	168,600	174,000	180,600	187,800	193,500
Other Services	42,200	43,200	44,600	45,600	47,700
Government	152,300	149,300	147,900	148,700	151,900

Source: California Employment Development Department, based on March 2014 benchmark.

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

(1) Last available full year data.



The following table summarize historical employment and unemployment for Orange County, the State of California and the United States for the past five years:

**ORANGE COUNTY, CALIFORNIA, and UNITED STATES  
Civilian Labor Force, Employment, and Unemployment  
(Annual Averages)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(1)</sup>
2010	Orange County	1,592,500	1,441,500	151,000	9.5%
	California	18,316,400	16,051,500	2,264,900	12.4
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	Orange County	1,600,100	1,460,100	140,000	8.8%
	California	18,384,900	16,226,600	2,158,300	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	Orange County	1,613,600	1,491,600	122,000	7.6%
	California	18,494,900	16,560,300	1,934,500	10.5
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	Orange County	1,610,900	1,510,600	100,400	6.2%
	California	18,596,800	16,933,300	1,663,500	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	Orange County	1,573,800	1,487,400	86,400	5.5%
	California	18,811,400	17,397,100	1,414,300	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2

Sources: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Averages 2010-2014 and US Bureau of Labor Statistics.

- (1) Data not seasonally adjusted.
- (2) Last available full year data.

**Major Employers**

The table below sets forth the principal employers in the County.

**ORANGE COUNTY  
2014 Principal Employers**

Employer	Employees	% of Total Employment
Walt Disney Co.	25,000	1.56%
UC Irvine	22,253	1.39
Orange County	18,035	1.12
St. Joseph Health System	12,062	.75
Boeing Co.	6,890	.43
Kaiser Permanente	6,040	.38
Bank of America	6,000	.37
Walmart	6,000	.37
Memorial Care Health System	5,635	.35
Target Corporation	5,400	.34
Totals	113,315	7.06

Source: Orange County 2014 Comprehensive Annual Financial Report.

## Construction Activity

The following table reflects the five-year history of building permit valuation for the County:

<b>ORANGE COUNTY</b>					
<b>Building Permits and Valuation</b>					
<b>(Dollars in Thousands)</b>					
	2010	2011	2012	2013	2014 <sup>(1)</sup>
<b>Permit Valuation:</b>					
New Single-family	492,529	518,681	752,931	1,237,994	1,234,498
New Multi-family	208,046	378,559	438,118	994,873	985,454
Res. Alterations/Additions	328,830	450,105	363,854	363,674	413,518
Total Residential	<u>1,029,406</u>	<u>1,347,345</u>	<u>1,544,904</u>	<u>2,596,542</u>	<u>2,633,471</u>
Total Nonresidential	1,515,928	1,188,198	1,271,034	4,208,209	2,000,167
Total All Building	<u>2,181,334</u>	<u>2,535,543</u>	<u>2,825,938</u>	<u>6,804,752</u>	<u>4,633,639</u>
<b>New Dwelling Units:</b>					
Single Family	1,553	1,908	2,438	3,889	3,646
Multiple Family	1,538	2,897	3,725	6,564	6,990
Total	<u>3,091</u>	<u>4,805</u>	<u>6,163</u>	<u>10,453</u>	<u>10,636</u>

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

(1) Last available full year data.

## Commercial Activity

Taxable sales in the County are shown below. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years.

<b>ORANGE COUNTY</b>					
<b>Taxable Sales, 2009-2013</b>					
<b>(Dollars in thousands)</b>					
	2009	2010	2011	2012	2013 <sup>(1)</sup>
Retail and Food Services					
Motor Vehicles and Parts Dealers	4,902,480	5,244,266	5,777,582	6,551,466	7,147,516
Furniture and Home Furnishings Stores	850,889	869,868	909,455	964,018	1,050,308
Electronics and Appliance Stores	1,978,869	2,058,383	2,319,992	2,536,415	2,488,963
Bldg Mtrl. and Garden Equip. and Supplies	2,039,686	2,112,467	2,267,363	2,351,574	2,581,968
Food and Beverage Stores	1,894,642	1,911,192	1,990,893	2,056,803	2,111,209
Health and Personal Care Stores	784,067	824,719	894,003	948,220	983,067
Gasoline Stations	3,383,678	3,801,651	4,826,228	5,063,762	4,706,666
Clothing and Clothing Accessories Stores	2,742,626	2,923,680	3,164,857	3,510,757	3,764,088
Sporting Goods, Hobby, Book and Music Stores	1,074,579	1,075,996	1,101,159	1,133,702	1,176,097
General Merchandise Stores	4,376,154	4,527,201	4,771,143	5,026,911	5,169,057
Miscellaneous Store Retailers	1,625,880	1,611,739	1,656,162	1,738,855	1,766,848
Nonstore Retailers	484,692	481,563	459,841	635,707	893,254
Food Services and Drinking Places	5,024,379	5,109,383	5,449,177	5,853,267	6,186,883
Total Retail and Food Services	<u>31,162,619</u>	<u>32,552,107</u>	<u>35,587,795</u>	<u>38,372,456</u>	<u>40,025,929</u>
All Other Outlets	14,550,164	15,115,073	16,143,344	16,858,156	17,565,288
Totals All Outlets	<u>45,712,784</u>	<u>47,667,179</u>	<u>51,731,139</u>	<u>55,230,612</u>	<u>57,591,217</u>

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Note: Totals may not add due to independent rounding.

(1) Last available full year data.

## Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

### ORANGE COUNTY, CALIFORNIA and UNITED STATES Effective Buying Income

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2010	Orange County	75,063,558	57,849
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	Orange County	76,315,505	57,607
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	Orange County	81,079,398	57,181
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	Orange County	81,151,078	59,589
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	Orange County	83,607,615	60,931
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

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Source: The Nielsen Company (US), Inc.

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## APPENDIX B

### AMENDED RATE AND METHOD OF APPORTIONMENT FOR CAPISTRANO UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 98-2 (LADERA)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Capistrano Unified School District Community Facilities District No. 98-2 ("CFD No. 98-2") and collected each Fiscal Year commencing in Fiscal Year 1999-2000, in an amount determined by the Board through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property" and "Undeveloped Property" as described below. All of the real property in CFD No. 98-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

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

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

**"Administrative Expenses"** means the following actual or reasonably estimated costs directly related to the administration of CFD No. 98-2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the School District or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the School District, CFD No. 98-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the School District, CFD No. 98-2 or any designee thereof of complying with School District, CFD No. 98-2 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the School District, CFD No. 98-2 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the School District's annual administration fees, including, without limitation, expenses incurred in pursuit of State funding with respect to CFD No. 98-2 public facilities, and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the School District or CFD No. 98-2 for any other administrative purposes of CFD No. 98-2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

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

**“Assessor’s Parcel Map”** means an official map of the Assessor of the County designating parcels by Assessor’s parcel number.

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

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

**“Board”** means the Board of Trustees of the Capistrano Unified School District, acting as the legislative body of CFD No. 98-2.

**“Bonds”** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 98-2 under the Act.

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

**“CFD No. 98-2”** means Capistrano Unified School District Community Facilities District No. 98-2 (Ladera).

**“Consumer Price Index”** means the Consumer Price Index published by the U.S. Bureau of Labor Statistics for “All Urban Consumers” in the Los Angeles - Anaheim - Riverside Area, measured as of the month of December in the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Consumer Price Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Consumer Price Index for the City of Los Angeles.

**“Courthouse Property”** means any property within the boundaries of CFD No. 98-2 that is owned by the County and is used primarily as a County courthouse.

**“County”** means the County of Orange.

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

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

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

**“Land Use Class”** means any of the classes listed in Table 1.

**“Maximum Special Tax”** means the Maximum Special Tax, determined in accordance with Section C below, that can be levied in any Fiscal Year on any Assessor’s Parcel.

**“Non-Residential Property”** means all Assessor’s Parcels of Developed Property for which a building permit(s) was issued for a non-residential use, including Courthouse Property.

**“Outstanding Bonds”** means all Bonds which remain outstanding.

**“Property Owner Association Property”** means any property within the boundaries of CFD No. 98-2 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association.

**“Proportionately”** means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property within CFD No. 98-2. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property in CFD No. 98-2.

**“Public Property”** means any property within the boundaries of CFD No. 98-2 that is used for rights- of-way or any other purpose and is owned by or dedicated to the federal government, the State of California, the County or any other public agency, excluding Courthouse Property; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

**“Religions Property”** means all property within the boundaries of CFD No. 98-2 which is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property, without limitation, does not include any Assessor’s Parcels used for religious schools, day care centers, or congregate care facilities.

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

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

**“School District”** means the Capistrano Unified School District.

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

**“Special Tax Requirement”** means that amount required in any Fiscal Year for CFD No. 98-2 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for construction of facilities eligible under the Act; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; (vii) less a credit for funds available to reduce the annual Special Tax levy, as determined pursuant to the Indenture.

**“State”** means the State of California.

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of CFD No. 98-2 which are not exempt from the Special Tax pursuant to law or Section E below.

**“Taxable Property Owner Association Property”** means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

**“Taxable Public Property”** means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section E below.

**“Taxable Religious Property”** means all Assessor’s Parcels of Religious Property that are not exempt pursuant to Section E below.

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

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

## **B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all Taxable Property within CFD No. 98-2 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the amended rate and method of apportionment determined pursuant to Sections C and D below. Residential Property shall be assigned to Land Use Class 1 and Non-Residential Property shall be assigned to Land Use Class 2.

The Assigned Special Tax for Residential Property shall be based on the Residential Floor Area of the dwelling units located on the Assessor’s Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Acreage of the Assessor’s Parcel.

## **C. MAXIMUM SPECIAL TAX RATE**

### **1. Developed Property**

#### **a. Maximum Special Tax**

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

#### **b. Assigned Special Tax**

The Assigned Special Tax for each Land Use Class for Fiscal Year 1999 2000 is shown below in Table 1.



**TABLE 1**

**Assigned Special Taxes for Developed Property  
For Fiscal Year 1999-2000  
Community Facilities District No.98-2**

<i>Land Use Class</i>	<i>Description</i>	<i>Assigned Special Tax</i>
1	Residential Property	\$0.3905 per square foot of Residential Floor Area
2	Non-Residential Property	\$8,544 per Acre

c. Increase in the Assigned Special Tax

The Assigned Special Tax in Table 1 shall be applicable for Fiscal Year 1999-2000, but for an Assessor's Parcel which is first designated as Developed Property in a later Fiscal Year, the Assigned Special Tax for such Assessor's Parcel in that later Fiscal Year shall be increased above the levels listed in Table 1, based on the Consumer Price Index, commencing on July 1, 2000 and on July 1 of each Fiscal Year thereafter, with a maximum annual increase of four percent (4%) and a minimum annual increase of two percent (2%). After the first Fiscal Year in which any Assessor's Parcel is designated as Developed Property, the Assigned Special Tax for such Assessor's Parcel shall be increased every July 1 by two percent (2%) per year.

d. Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax levied on an Assessor's Parcel shall be the sum of the Assigned Special Taxes for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax that can be levied on an Assessor's Parcel shall be the sum of the Maximum Special Taxes that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each land use as determined by reference to the site plan approved for such Assessor's Parcel.

e. Backup Special Tax

The Backup Special Tax in CFD No. 98-2 shall equal \$7,867 per Acre for Fiscal Year 1999-2000, and shall increase thereafter, commencing on July 1, 2000 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Backup Special Tax for the previous Fiscal Year.

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

a. Maximum Special Tax

The Maximum Special Tax for Undeveloped Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property in CFD No. 98-2 shall be \$9,901 per Acre for Fiscal Year 1999-2000, and

shall increase thereafter, commencing on July 1, 2000 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year.

#### **D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

Commencing with Fiscal Year 1999-2000 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax.

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

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

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

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

#### **E. EXEMPTIONS**

No Special Tax shall be levied on up to 927 Acres of Property Owner Association Property, 265 Acres of Public Property and 6 Acres of Religious Property. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property, Public Property or Religious Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property, Public Property or Religious Property, its tax-exempt status will be revoked.

Property Owner Association Property, Public Property or Religious Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property.

**F. REVIEW/APPEAL COMMITTEE**

The Board shall establish as part of the proceedings and administration of CFD No. 98-2 a special three-member Review/Appeal Committee. Any landowner or resident who feels that the amount of the Special Tax levied on their Assessor's Parcel is in error may file a notice with the Review/Appeal Committee appealing the amount of the Special Tax levied on such Assessor's Parcel. The Review/Appeal Committee shall interpret this Amended Rate and Method of Apportionment and make determinations relative to the annual administration of the Special Tax and any landowner or resident appeals, as herein specified. The decision of the Review/Appeal Committee shall be final and binding as to all persons.

**G. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 98-2 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by law and by CFD No. 98-2. However, the use of Bond tenders shall only be allowed on a case- by-case basis as specifically approved by the Board.

**H. TERM OF SPECIAL TAX**

The Special Tax shall be levied on each Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

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## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

#### DEFINITIONS

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

“Administrative Expense Account” means that certain account by that name established and maintained in the Special Tax Fund.

“Administrative Expense Requirement” means the amount of \$150,000, escalating by 2% per Bond Year beginning September 2, 2016, less the amount deposited in the Administrative Expense Account under the 2005 Bonds Indenture in a Bond Year, provided that the District may, in its sole discretion, fund additional Administrative Expenses, without limitation, from any other funds available to the District.

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

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

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

“Authorized Investments” means any of the following investments, if and to the extent the same are at the time legal for investment of the District’s funds (the Trustee is entitled to rely upon investment direction from the District as a certification such investment is an Authorized Investment):

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
  - U.S. Export-Import Bank - Direct obligations or fully guaranteed certificates of beneficial ownership;
  - Farmers Home Administration - Certificates of beneficial ownership;
  - General Service Administration - Participation Certificates;
  - Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA - guaranteed mortgage-backed bonds, GNMA - guaranteed pass-through obligations;
  - U.S. Maritime Administration - Guaranteed Title XI financing;

- U.S. Department of Housing and Urban Development (HUD), Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds;
- Federal Housing Administration Debentures;

(c) Senior debt obligations rated “AAA” by Standard & Poor’s Ratings Group (Standard & Poor’s) and “Aaa” by Moody’s Investors Service, Inc. (Moody’s) issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor’s of AAAM-G or better, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian;

(e) Certificates of deposit secured at all times by collateral described in (a) and (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party or the Trustee and the Trustee on behalf of the Bond Owners must have a perfected first security interest in the collateral;

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC;

(g) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1+” by Standard & Poor’s and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (i.e., ratings on holding companies are not considered as the rating of the bank);

(h) Commercial Paper rated, at the time of purchase, “Prime-1” by Moody’s and “A-1” or better by Standard & Poor’s;

(i) Repurchase agreements with financial institutions insured by the FDIC; or any broker-dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or a bank or other financial institution rated in the top two rating categories by one or more Rating Agencies; provided that: (i) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (c); (ii) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (iii) the Trustee shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral;

(j) County or State-administered pooled investment funds in which the District is statutorily permitted or required to invest to the extent that any amounts are deposited by the Trustee into such funds and the Trustee shall have direct access to such fund;

(k) The local agency investment pool maintained by the Orange County Treasurer’s Money Market Investment Pool to the extent deposits and withdrawals may be made directly by and in the name of the Trustee.

“Authorized Representative of the School District” or “Authorized Representative” means the Superintendent or the Deputy Superintendent, Business Services and Support of the School District or any other person or persons designated by the Superintendent or the Deputy Superintendent, Business Services and Support of the School District by a written certificate signed by the Superintendent or the Deputy Superintendent, Business Services and containing the specimen signature of each such person.

“BAM” means Build America Mutual Assurance Company, or any successor thereto.

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

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

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

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

“Bonds” means Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) 2015 Subordinate Special Tax Refunding Bonds issued in the original principal amount of \$87,480,000.

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

“Certificate of an Authorized Representative” means a written certificate executed by an Authorized Representative of the School District, or his written designee.

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

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated July 1, 2015, by and between the District and Government Financial Strategies inc., as dissemination agent thereunder.

“Corporate Trust Office” means the Corporate Trust Office of the Trustee in St. Paul, Minnesota, or such other office designated by the Trustee from time to time.

“Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and the preliminary and final Official Statements, fees of the appraiser, financial consultants, special tax consultants and other fees and expenses set forth in a Certificate of an Authorized Representative, or his or her designee.

“County” means the County of Orange, California.

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

“Debt Service Account” means the account by that name established pursuant to the Indenture.

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

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

“Dissemination Agent” means Government Financial Strategies inc., and any successor thereto.

“District” means Capistrano Unified School District Community Facilities District No. 98-2 (Ladera) established pursuant to the Act and the Resolution of Formation.

“Escrow Agreement” means the Escrow Agreement, by and between U.S. Bank National Association, as Escrow Bank, and the District, dated as of July 1, 2015.

“Escrow Bank” means U.S. Bank National Association.

“Escrow Fund” means the Escrow Fund established under the Escrow Agreement.

“Federal Securities” means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation (“FDIC”) or otherwise collateralized with obligations described in paragraph (2) below),

(2) Direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America, or

(3) Obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

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

“Gross Taxes” means the amount of all Special Taxes paid or required to be paid to the Trustee by the District or the 2005 Bonds Fiscal Agent in accordance with the 2005 Bonds Indenture.

“Indenture” means the Bond Indenture, by and between the District and the Trustee, dated as of July 1, 2015, together with any Supplemental Indenture approved pursuant to the Indenture.

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

(a) is in fact independent and not under the domination of the District or the School District;

(b) does not have any substantial interest, direct or indirect, in the District or the School District; and

(c) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District or the School District.

“Insured Bonds” means the Bonds maturing on September 1, 2018 through September 1, 2029.

“BAM” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

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

“Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, N.A.) plus 3%, and (ii) the then applicable highest rate of interest on the Insured Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as BAM, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to BAM shall be computed on the basis of the actual number of days elapsed in a year of 360 days.



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

(1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of the Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

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

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

“Ordinance” means Ordinance No. 98-2-1 adopted by the legislative body of the District on March 8, 1999 providing for the levying of the Special Tax.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Indenture;

(2) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity in the Indenture, notice of such redemption shall have been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange or for which a replacement has been issued pursuant to the Indenture.

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

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

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

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

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Taxes approved by the qualified electors of the District of the District at the November 15, 2004 election, as amended from time to time.

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

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

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

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

“Redemption Account” means the account by that name created and established pursuant to the Indenture.

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

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

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

“Reserve Credit Facility” means (i) the Reserve Policy, or (ii) any other credit facility, surety bond (other than the Reserve Policy), municipal bond insurance policy, unconditional irrevocable letter of credit or any other security device, in each case issued by providers whose long term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, is rated, at the time such security device is issued, “AA” or better by S&P credited to the Reserve Account in lieu of cash.

“Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy issued by BAM guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitation set forth therein.

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

“Resolution of Formation” means Resolution No. 9899-76 adopted by the Board of Trustees of the School District on February 8, 1999, pursuant to which the School District formed the District.

“Resolution of Issuance” means Resolution No. 1415-49 duly adopted by the Board of Trustees of the School District, acting in its capacity as the legislative body of the District, on June 24, 2015, approving the Indenture, and any supplemental bond indenture approved pursuant to the Indenture.

“School District” means the Capistrano Unified School District, Valley Center, California.

“Security Documents” means the Indenture and/or any additional or supplemental document executed in connection with the Insured Bonds.

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

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

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

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

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

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

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

“Treasurer” means the Treasurer-Tax Collector of the County of Orange.

“Trustee” means U.S. Bank National Association, and any successor thereto.

“2005 Bonds” means the Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) Series 2005 Special Tax Bonds outstanding pursuant to the 2005 Bonds Indenture.

“2005 Bonds Fiscal Agent” means U.S. Bank National Association in its capacity as fiscal agent under the 2005 Bonds Indenture, and any successor thereto.

“2005 Bonds Indenture” means that certain bond Indenture dated as of April 1, 2005 by and between the District and U.S. Bank National Association, as trustee.

“Underwriter” means Morgan Stanley & Co. LLC with respect to the Bonds and, with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

## **BOND TERMS**

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

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

***Subordination of 2005 Bonds; Equality of Bonds and Parity Bonds and Pledge of Net Taxes.*** The Bonds and any Parity Bonds are secured by Net Taxes on a basis subordinate to the 2005 Bonds and the Owners shall have no claim on any amounts held under the 2005 Bonds Indenture other than amounts required to be transferred to the Trustee pursuant to the provisions thereof.

Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (other than the Administrative Expense Account therein), without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption in the Indenture, shall be exclusively paid from the Net Taxes and other

amounts in the Special Tax Fund (other than the Administrative Expense Account therein), which are set aside for the payment of the Bonds and any Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) 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 any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Costs of Issuance Fund, the Surplus Fund or the Administrative Expense Account shall be construed as a trust fund held for the benefit of the Owners.

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

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

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

**Registration of Exchange or Transfer.** Subject to the limitations of the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the Corporate Trust Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Trustee shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed; or (ii) any Bonds or Parity Bonds chosen for redemption.

**Mutilated, Lost, Destroyed or Stolen Bonds.** If any Bond or Parity Bond shall become mutilated, the District, at the expense of the Bondowner, shall execute, and the Trustee shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to the Indenture. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the Trustee shall be given, the District, at the expense of the Bondowner, shall execute and the Trustee shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond or Parity

Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits in the Indenture with all other Bonds and Parity Bonds issued under the Indenture. The Trustee shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding under the Indenture, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds or Parity Bonds upon receipt of indemnification satisfactory to the Trustee.

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

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

***Creation of Funds.*** There is created and established and shall be maintained by the Trustee the following funds and accounts:

(1) The Community Facilities District No. 98-2 Special Tax Fund (the “Special Tax Fund”) in which there shall be established and created an Administrative Expense Account, a Debt Service Account, a Redemption Account and a Reserve Account;

(2) The Community Facilities District No. 98-2 Rebate Fund (the “Rebate Fund”) in which there shall be established a Rebate Account and an Alternative Penalty Account;

(3) The Community Facilities District No. 98-2 Fund (the “Costs of Issuance Fund”); and

(4) The Community Facilities District No. 98-2 Surplus Fund (the “Surplus Fund”).

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

***Deposits to and Disbursements from the Special Tax Fund and the Special Tax Fund.*** Subject to the provisions of the 2005 Bonds Indenture, the District shall, no later than the last day of each month during which the Special Taxes are apportioned to the District, transfer the Special Taxes to the Trustee or cause the 2005 Bonds Fiscal Agent to transfer such Special Taxes to the Trustee. The Trustee shall, on each date on which the Special Taxes are received from the District or the 2005 Bonds Fiscal Agent, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

(1) The Administrative Expense Account of the Special Tax Fund;

(2) The Debt Service Account of the Special Tax Fund;

(2) The Reserve Account of the Special Tax Fund;

(3) The Rebate Fund; and

(4) The Surplus Fund.

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

***Administrative Expense Account of the Special Tax Fund.*** The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred in a Bond Year shall not exceed the Administrative Expense Requirement until such time as there has been deposited to the Debt Service Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expense Requirement may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

***Debt Service Account of the Special Tax Fund.*** The principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds until maturity shall be paid by the Trustee from amounts transferred to the Debt Service Account of the Special Tax Fund. For the purpose of assuring that the payment of principal or Sinking Fund Payment of, and interest on, the Bonds and Parity Bonds will be made when due, at least one Business Day prior to each Interest Payment Date, the Trustee shall make the following transfers to the Debt Service Account; provided, however, that to the extent that deposits have been made in the Debt Service Account from the proceeds of the sale of the Bonds and Parity Bonds, or otherwise, or to the extent that a transfer will be made from the Reserve Account to the Debt Service Account in accordance with the Indenture, the transfer from the Special Tax Fund need not be made: an amount such that the balance in the Debt Service Account one (1) Business Day prior to each Interest Payment Date shall be equal to the installments of interest, principal and Sinking Fund Payments due on the Bonds and Parity Bonds on said Interest Payment Date. Moneys in the Debt Service Account shall be used for the payment of the interest, principal or Sinking Fund Payment of the Bonds and Parity Bonds as the same become due.

***Redemption Account of the Special Tax Fund.***

(a) After making the deposit to the Debt Service Account of the Special Tax Fund above and in accordance with the District's election to call Bonds or Parity Bonds for optional redemption as set forth in the Indenture or any Supplemental Indenture, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal of and interest on the Bonds called for redemption, and the premiums payable as provided in the Indenture or any Supplemental Indenture on the Bonds or Parity Bonds called for optional redemption one (1) Business Day prior to the redemption date; provided, however, that Net Taxes may be applied to optionally redeem Bonds or Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

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

***Reserve Account of the Special Tax Fund.*** There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement.

Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Debt Service Account of the Special Tax Fund are insufficient therefor and to pay the provider of a Reserve Credit Facility amounts due to such provider following a draw thereon; provided, however, any portion of the Reserve Account held in cash may be applied to pay the principal and interest due on any Bonds or Parity Bonds in the final Bond Year in which any Bonds or Parity Bonds are Outstanding. If the amounts in the Debt Service Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on the Bonds and any Parity Bonds when due, the Trustee shall withdraw from the Reserve Account for deposit in the Debt Service Account of the Special Tax Fund moneys necessary for such purposes. Following any transfer to the Debt Service Account of the Special Tax Fund as described above, the District shall then take the steps necessary to cause to be deposited to the Reserve Account the amount needed to replenish the Reserve Account to the Reserve Requirement and to pay the provider of a Reserve Credit Facility amounts due to such provider following a draw thereon by transferring such amount from Special Taxes held by the Treasurer or, if the District so elects, by including such amount in the next annual Special Tax levy to the extent of the permitted maximum Special Tax rates.

The District may at any time elect to maintain the Reserve Requirement in whole or in part in cash or in the form of a Reserve Credit Facility. The Trustee shall draw on each Reserve Credit Facility in accordance with its terms (i) when and if moneys are needed pursuant to the provisions of the preceding paragraph; provided, however, that the Trustee must make demand at least three (3) Business Days prior to the date that such funds are needed; and (ii) prior to the stated maturity of such Reserve Credit Facility. In the event the Reserve Requirement is satisfied by a combination of cash and a Reserve Credit Facility, the Trustee shall draw down completely on the cash on deposit for such purpose in the Reserve Account before any demand is made on the Reserve Credit Facility.

Notwithstanding anything in the Indenture to the contrary, whenever moneys are withdrawn from the Reserve Account, after making the required transfers pursuant to the Indenture, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund the amount needed to restore the amount of such account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Debt Service Account of the Special Tax Fund. In no event shall amounts in the Reserve Account be used to pay fees or expenses of the Trustee or its counsel.

In connection with a redemption of Bonds or Parity Bonds pursuant to the Indenture, or a defeasance of Bonds or Parity Bonds in accordance with the Indenture, any cash amounts in the Reserve Account (but not proceeds of a draw on a Reserve Credit Facility) shall be applied to such redemption or defeasance so long as the amount on deposit in the Reserve Account following such redemption or any partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to the Indenture to partially defease Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

Notwithstanding any provision in the Indenture to the contrary, moneys in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account on the Business Day before each Interest Payment Date and transferred to the Debt Service Account to be applied to the interest on the Bonds on the next Interest Payment Date.

***Rebate Fund.***

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

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

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

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

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

***Costs of Issuance Fund.*** (a) The moneys in the Costs of Issuance Fund shall be applied exclusively to pay the Costs of Issuance for the Bonds. Amounts for Costs of Issuance shall be disbursed from the Costs of Issuance Fund by the Trustee only upon receipt of a sequentially numbered written requisition, substantially in the form attached to the Indenture from the School District Superintendent, or his designee, or such other person as is designated in writing to the Trustee by the legislative body of the District.

(b) Upon the receipt of a Certificate of an Authorized Representative, or his designee, that all or a specified portion of the amount remaining in the Costs of Issuance Fund is no longer needed to pay Costs of Issuance, respectively, the Trustee shall transfer all or such specified portion of the moneys remaining on deposit in such account to the Debt Service Account of the Special Tax Fund and the Costs of Issuance Fund shall be closed.

***Surplus Fund.*** After making the transfers required by the Indenture, as soon as practicable after each September 1 following the payment of amounts due on the Bonds and any Parity Bonds, and in any event prior to each October 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses; or (iv) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds,



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

**Investments.** Moneys held in any of the Funds and Accounts under the Indenture shall be invested by the Trustee at the written direction of the District in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds and Accounts. Any loss resulting from such Authorized Investments shall be charged to the Fund or Account from which such investment was made, and any investment earnings on a Fund or Account shall be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund shall be deposited in that Fund, (ii) investment earnings on all amounts in the Rebate Fund shall be deposited in that Fund, (iii) investment earnings on all amounts deposited in the Reserve Account of the Special Tax Fund shall be used to satisfy the Reserve Requirement and any investment earnings not needed to satisfy the Reserve Requirement shall be withdrawn from the Reserve Account one (1) Business Day before each Interest Payment Date and transferred to the Debt Service Account as provided in the Indenture; and (iv) all other investment earnings shall be deposited in the Debt Service Account of the Special Tax Fund. Moneys in the Funds and Accounts held under the Indenture may be invested by the Trustee, upon the written direction of the District, from time to time, in Authorized Investments which written direction shall be made in accordance with the following restrictions:

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

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

(c) One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two (2) years from their date of purchase by the Trustee, and one-half of such amount shall be invested in Authorized Investments which mature not more than three (3) years from the date of purchase by the Trustee; provided that such amounts may be invested in an investment or repurchase agreement so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds to which such amounts relate.

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

The Trustee, at the direction of the District, shall sell, or present for redemption, any Authorized Investments so purchased whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the market value in the Indenture at least semiannually on or before each Interest Payment Date. In making any valuations under the Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary,

the Trustee shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Trustee may sell at the best market price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the Fund or Account to which such Authorized Investment is credited, and, subject to the provisions of the Indenture, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately. In the absence of written investment direction the Trustee shall invest solely in Authorized Investments set forth in (d) of the definition in the Indenture.

The District acknowledges that regulations of the Comptroller of the Currency grant the District the right to receive brokerage confirmations of security transactions to be effected by the Trustee under the Indenture as they occur. The District specifically waives the right to receive such confirmations to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which include detail for the investment transactions effected by the Trustee under the Indenture; provided, however, that the District retains its right to receive brokerage confirmation on any investment transaction requested by the District.

### **COVENANTS AND WARRANTY**

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

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

***Punctual Payment; Against Encumbrances.*** The District covenants that it will receive all Gross Taxes in trust and will deposit the Gross Taxes with the Trustee, as provided in the Indenture, and the District shall have no beneficial right or interest in the amounts so deposited except as provided in the Indenture. All such Gross Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District. Notwithstanding the provisions of the Indenture, as set forth therein, the District shall have the right to accept less than the minimum bid on any delinquent parcel, and is indemnified from legal claim for Owners of the Bonds and Parity Bonds, if the Board determines that the acceptance of less than the minimum bid or another action as described in the Indenture is in the best interest of the District.

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

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

***Levy and Collection of Special Tax.*** Beginning in Fiscal Year 2015-16 and so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, the legislative body of the District covenants to levy

the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) any amounts required to be deposited under the 2005 Bonds Indenture in each Fiscal Year, (2) the principal of and interest on the Bonds and any Parity Bonds when due, (3) the Administrative Expenses, (4) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement, and (5) any amounts required to reimburse the provider of any Reserve Credit Facility for costs incurred with respect to the Reserve Credit Facility which are payable by the District. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

**Commence Foreclosure Proceedings.** The District covenants for the benefit of the Owners of the Bonds and any Parity 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 and (ii) will commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied for such Fiscal Year, and (iii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Property which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes in an amount in excess of \$10,000 so long as (1) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (2) with respect to the Bonds, or any Parity Bonds, the District is not in default in the payment of the principal of or interest on the Bonds or any such Parity Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund established under the 2005 Bonds Indenture.

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

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

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

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

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

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

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

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

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated in the Tax Certificate and incorporated by reference in the Indenture.

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

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

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

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

***Opinions***. In the event that an opinion is rendered by Bond Counsel as provided in the Indenture from a firm other than the firm which rendered the Bond Counsel opinion at closing, such subsequent opinion by Bond Counsel shall also include the conclusions set forth in numbered paragraphs 4 and 6 of the original Bond Counsel opinion.

***Reduction of Maximum Special Taxes***. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District covenants, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate

from one or more Independent Financial Consultants which, when taken together, certify that (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method) within the District to an amount which is less than the Administrative Expense Requirement plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction (the “Minimum Coverage Amount”); and (ii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

Notwithstanding foregoing, the District may modify, alter or amend the Rate and Method of Apportionment in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on Developed Property (as defined in the Rate and Method of Apportionment) below the Minimum Coverage Amount.

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

### AMENDMENTS TO INDENTURE

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

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

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

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

(d) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners; provided that any amendment or supplement to the Indenture which will affect the Trustee’s duties or protections set forth under the Indenture shall be effective only upon written consent of the Trustee; or

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

**Supplemental Indentures or Orders Requiring Bondowner Consent.** Exclusive of the Supplemental Indentures not requiring the consent of the Owners as set forth in the Indenture, BAM and the Owners of not less than a majority of in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the BAM and Owners of all Bonds and Parity Bonds then Outstanding.

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

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

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

## **TRUSTEE**

***Trustee.*** U.S. Bank National Association, having a corporate trust office in Los Angeles, California, is appointed Trustee for the District for the purpose of receiving all money which the District is required to deposit with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture. In the event that the District fails to deposit with the Trustee any amount due under the Indenture when due, the Trustee shall provide telephonic notice to the District and shall confirm the amount of such shortfall in writing to the extent such amount is known to the Trustee.

The Trustee is authorized to and shall mail by first class mail, postage prepaid, or pay by wire transfer as provided in the Indenture, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Indenture. The Trustee shall keep accurate records of all

funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it. The Trustee shall deliver to the District a monthly accounting of the Funds and Accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver such accounting for any Fund or Account that has a balance of zero. The Trustee may establish such Funds and Accounts as it deems necessary or appropriate to perform its obligations under the Indenture.

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

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

**Removal of Trustee.** The District may at any time at its sole discretion, but with the consent of BAM, remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee and BAM a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be (i) a national banking association in good standing authorized to exercise trust powers or having the powers of a trust company and duly authorized to exercise trust powers within the State having a combined capital and surplus of at least \$250,000,000, and subject to supervision or examination by federal or state authority, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System having at least \$1,000,000,000 of assets, or (iii) an entity otherwise approved by BAM in writing. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this paragraph the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

**Resignation of Trustee.** The Trustee may at any time resign by giving written notice to the District and BAM and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee acceptable to BAM. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this paragraph within thirty (30) days after the Trustee shall have given to the District and the Owners written notice, the Trustee, at the expense of the District, or the District may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee, which successor shall be acceptable to the District.

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

The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete

authorization and protection in respect of any action taken or suffered under the Indenture in good faith and in accordance therewith.

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

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

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds or Parity Bonds.

No provision of the Indenture or any other document related to the Indenture shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Indenture.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be deemed to have notice of any Event of Default unless an officer in the Corporate Trust Division has actual knowledge of such Event of Default.

***Merger or Consolidation.*** Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

## **EVENTS OF DEFAULT; REMEDIES**

***Events of Default.*** Any one or more of the following events shall constitute an “Event of Default”:

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

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

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Trustee or the Owners of twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

***Remedies of Owners.*** Following the occurrence of an Event of Default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

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



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

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

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

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

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

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

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

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

***Appointment of Receivers.*** Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights and of the Owners of the Bonds and Parity Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the

appointment of a receiver or receivers of the Net Taxes and other amounts pledged thereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

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

A waiver of any default or breach of duty or contract by the Trustee or any 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 or Parity 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 the Owners by the Act 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 Owners, as the case may be.

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

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

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

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

## **DEFEASANCE**

**Defeasance.** If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal in the Indenture, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture relating to such Parity Bonds shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Indenture, upon payment of all amounts owed by the District to the Trustee under the Indenture, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall, after payment of amounts payable to the Trustee under the Indenture, pay over or deliver to the District's general fund all money or securities held by it

pursuant to the Indenture which are not required for the payment of the interest due on and the principal of such Bonds and Parity Bonds.

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

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

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

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

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than thirty (30) days prior to the proposed defeasance date or such later date as is acceptable to the Trustee. In connection with a defeasance under (b) or (c) above, there shall be provided to the Trustee a certificate of a certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of and interest on all Outstanding Bonds or Parity Bonds to be defeased in accordance with the Indenture, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bond being defeased have been legally defeased in accordance with the Indenture and any applicable Supplemental Indenture. Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds and Parity Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due and any fees and expenses of the Trustee remaining unpaid. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds and Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

Notwithstanding anything herein to the contrary, to accomplish the defeasance of Insured Bonds, at least three Business Days prior to any defeasance, the District shall deliver to BAM draft copies of an escrow agreement, and opinion of bond counsel regarding the validity and enforceability of the escrow agreement and the defeasance of such Insured Bonds, and a verification report (a "Verification Report") prepared by a nationally recognized independent financial analyst or firm of certified public accountants regarding the sufficiency of the escrow fund. Such opinion and Verification Report shall be addressed to BAM and shall be in form and substance satisfactory to BAM. In addition, the escrow agreement shall provide that: a) any substitution of securities shall require the delivery of a verification report, an opinion of bond counsel that such substitution will not adversely affect the exclusion (if interest on the Insured Bonds is excludable) from gross income of the holders of the Insured Bonds of the interest on the Insured Bonds for federal income tax purposes and the prior written consent of BAM; b) the District will not exercise any prior optional redemption of Insured Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (i) the right to make any such redemption has been expressly reserved in the escrow

agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (ii) as a condition to any such redemption there shall be provided to BAM a verification report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such redemption; and c) the District shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of BAM.

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

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

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

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds in the Indenture are to be deposited, including a provision requiring the proceeds of such Parity Bonds to be applied solely for the purpose of refunding any Outstanding Bonds or Parity Bonds, including payment of all costs and the funding of all reserves incidental to or connected with such refunding;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date shall fall on an September 1, (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination in the Indenture, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

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

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

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

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

such Parity Bonds; (1) a certified copy of the Supplemental Indenture authorizing the issuance of

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the District to the effect that (i) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (ii) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application in the Indenture to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

(6) such further documents, money and securities as are required by the provisions of the Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

### **MUNICIPAL BOND INSURANCE AND RESERVE POLICY**

**Consent of BAM.** Any reorganization or liquidation plan with respect to the District must be acceptable to BAM. In the event of any reorganization or liquidation of the District, BAM shall have the right to vote on behalf of all holders of the Insured Bonds absent a continuing failure by BAM to make a payment under the Policy.

No contract shall be entered into or any action taken by which the rights of BAM or security for or source of payment of the Insured Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of BAM.

Anything in the Security Documents to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, BAM shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Bonds or the Trustee for the benefit of the holders of the Insured Bonds under this Indenture. No default or event of default may be waived without BAM's written consent.

**BAM as Owner.** Upon the occurrence and continuance of a default or an event of default, BAM shall be deemed to be the sole owner of the Insured Bonds for all purposes under the Security Documents, including, without limitations, for purposes of exercising remedies and approving amendments.

**Special Provisions for Insurer Default.** If an Insurer Default shall occur and be continuing, then, notwithstanding anything the Indenture to the contrary, (1) if at any time prior to or following an Insurer Default, BAM has made payment under the Policy, to the extent of such payment BAM shall be treated like

any other holder of the Insured Bonds for all purposes, including giving of consents, and (2) if BAM has not made any payment under the Policy, BAM shall have no further consent rights until the particular Insurer Default is no longer continuing or BAM makes a payment under the Policy, in which event, the foregoing clause (1) shall control. For purposes of this paragraph, "Insurer Default" means: (A) BAM has failed to make any payment under the Policy when due and owing in accordance with its terms; or (B) BAM shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality shall order the suspension of payments on the Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of BAM (including without limitation under the New York Insurance Law).

***BAM as Third Party Beneficiary.*** Notwithstanding anything in the Indenture to the contrary, BAM is recognized as and shall be deemed to be a third party beneficiary of the Indenture and may enforce the provisions of the Indenture as if it were a party hereto.

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

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

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

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

***Payment Procedure under the Policy.*** In the event that principal and/or interest due on the Insured Bonds shall be paid by BAM pursuant to the Policy, the Insured Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the District to the registered Owners shall continue to exist and shall run to the benefit of BAM, and BAM shall be subrogated to the rights of such registered Owners, including, without limitation, any rights that such Owners may have in respect of securities law violations arising from the offer and sale of the Insured Bonds.

In the event that on the second (2nd) Business Day prior to any payment date on the Insured Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Insured Bonds due on such payment date, the Trustee shall immediately notify BAM or its designee on the same business day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify BAM or its designee.

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

The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Insured Bonds as follows:

(a) If there is a deficiency in amounts required to pay interest and/or principal on the Insured Bonds, the Trustee shall (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holders of the Insured Bonds in any legal proceeding related to the payment and assignment to BAM of the claims for interest on the Insured Bonds, (ii) receive as designee of the respective holders (and not as paying agent) in accordance with the tenor of the Policy payment from BAM with respect to the claims for interest so assigned, and (iii) disburse the same to such respective holders; and

(b) If there is a deficiency in amounts required to pay principal of the Insured Bonds, the Trustee shall (i) execute and deliver to BAM, in form satisfactory to BAM, an instrument appointing BAM as agent and attorney-in-fact for such holder of the Insured Bonds in any legal proceeding related to the payment of such principal and an assignment to BAM of the Insured Bonds surrendered to BAM, (ii) receive as designee of the respective holders (and not as paying agent) in accordance with the tenor of the Policy payment therefore from BAM, and (iii) disburse the same to such holders.

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

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

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

***Provisions Relating to the Reserve Policy.*** From amounts deposited to the Reserve Account, the District shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by BAM and shall pay interest thereon from the date of payment by BAM at the Late Payment Rate.

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

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

All cash and investments in the Reserve Account, if any, shall be transferred to the Debt Service Account for payment of principal (and Sinking Fund Payments) of and interest on the Bonds and Parity Bonds before any drawing may be made on the Reserve Policy or any other credit facility. Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Reserve Credit Facilities (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to other Reserve Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Account. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable Reserve Credit Facility without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

If the District shall fail to pay any Policy Costs in accordance with the requirements of this section, BAM shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture, other than: (i) acceleration of the maturity of the Bonds or Parity Bonds; or (ii) remedies which would adversely affect Owners of the Bonds or Parity Bonds. The Indenture shall not be discharged until all Policy Costs owing to BAM shall have been paid in full. The District's obligation to pay such amounts shall expressly survive payment in full of the Bonds and Parity Bonds. The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of this section and provide notice to BAM in accordance with the terms of the Reserve Policy at least three (3) Business Days prior to each date upon which interest or principal (or Sinking Fund Payment) is due on the Bonds or Parity Bonds. The Reserve Policy shall expire on the earlier of the date the Bonds are no longer Outstanding or the final maturity of the Bonds.

## MISCELLANEOUS

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

***Execution of Documents and Proof of Ownership.*** Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds shall be sufficient for the purposes of the Indenture (except as otherwise in the Indenture provided), if made in the following manner:

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



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

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

**Unclaimed Moneys.** Anything in the Indenture to the contrary notwithstanding and subject to the escheat laws of the State, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for one (1) year after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for one (1) year after the date of deposit of such money if deposited with the Trustee after the said date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds and Parity Bonds; provided, however, that, before being required to make any such payment to the District or the Trustee shall, at the expense of the District, cause to be mailed to the registered Owners of such Outstanding Bonds and Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

**Provisions Constitute Contract.** The provisions of the Indenture shall constitute a contract between the District and the Bondowners and the provisions in the Indenture shall be construed in accordance with the laws of the State of California.

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

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

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

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

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

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

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July 1, 2015, is by and between the Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) (the “District”) and Government Financial Strategies inc., as dissemination agent, in connection with the issuance and delivery by the District of the Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) Series 2015 Special Tax Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to that certain Bond Indenture (the “Indenture”), dated as of July 1, 2015, by and between the District and U.S. Bank National Association, as trustee (the “Trustee”). The District covenants as follows:

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

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

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

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

“*Disclosure Representative*” shall mean the Superintendent of the School District or the Deputy Superintendent, Business and Support Services of the School District or the designee of either of such officers, or such other officer or employee as the School District shall designate in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” shall mean, initially, Government Financial Strategies inc., or any successor Dissemination Agent designated in writing by the District which has filed with the then current Dissemination Agent a written acceptance of such designation.

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

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

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

“*Participating Underwriter*” shall mean Morgan Stanley & Co. LLC.

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

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

“School District” shall mean the Capistrano Unified School District.

**SECTION 3. Provision of Annual Reports.**

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

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

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

(c) If the District is the Dissemination Agent and the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in substantially the form attached to this Disclosure Agreement as Exhibit A. If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB’s EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the School District for the most recent fiscal year of the School District then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the School District in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the School District shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the School 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 School District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to the Repository, including the information set forth in Section 8(d) below.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of September 30 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture as of the September 30 preceding the filing of the Annual Report, including the Reserve Account and a statement of the Reserve Requirement;

(iii) any changes to the Rate and Method of Apportionment approved or submitted to the electors for approval prior to the filing of the Annual Report;

(iv) a statement as to whether the District is still participating in the County of Orange Teeter Plan and the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes;

(v) the identity of any property owner whose delinquent Special Taxes represent more than 5% of the amount levied and the number of units, assessed value, delinquency amount, assessed value-to-lien ratios and foreclosure status of the applicable properties;

(vi) information regarding the percentage of delinquency, if any, in the collection of Special Taxes levied on property in the District for the Fiscal Year preceding the Annual Report date in the form set forth in Table 9 in the Official Statement; and

(vii) the assessed value for the current Fiscal Year of the Taxable Property (as defined in the Rate and Method) in the District on which Special Taxes have been levied and the assessed value-to-lien ratio based on the outstanding principal amount of the 2005 Bonds, the Bonds and any Parity Bonds; and

(viii) any information not already included under (i) through (vi) above that the District is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

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

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

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

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

2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional Trustee or the change of the name of a Trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

(c) Upon the occurrence of a Listed Event under Section 5(b) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) Upon the occurrence of a Listed Event under Section 5(a) above and if the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

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

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Government Financial Strategies inc.. The Dissemination Agent may resign by providing (i) thirty days written notice to the District, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the District or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the District shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the

District and the Participating Underwriter, to the same effect as set forth in clause (2) above, (4) the District shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners, or such amendment shall have been approved by the Owners in the same manner as an amendment to the Indenture, and (5) the District shall have delivered copies of such opinion and amendment to the Repository.

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

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

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

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

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended may apply to the District, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may



incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the District shall be paid (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

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

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14. Governing Law. This Disclosure Agreement shall be construed and governed in accordance with the laws of the State of California.

SECTION 15. Notices. Any notice or communications to be among any of the parties to this Disclosure Agreement may be given as follows:

District:	Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) c/o Capistrano Unified School District 33122 Valle Road San Juan Capistrano, California 92675 Attention: Deputy Superintendent, Business and Support Services
Dissemination Agent:	Government Financial Strategies inc. 1228 "N" Street, Suite 13 Sacramento, California 95814-5609
Participating Underwriter:	Morgan Stanley & Co. LLC One New York Plaza New York, NY 10004

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 16. Future Determination of Obligated Persons. In the event the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the District to disclose information concerning any owner of land within the District except as required as part of the information required to be disclosed by the District pursuant to

Section 4 and Section 5 hereof. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

SECTION 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

COMMUNITY FACILITIES DISTRICT NO. 98-2  
OF THE CAPISTRANO UNIFIED SCHOOL  
DISTRICT (LADERA)

By: \_\_\_\_\_  
Superintendent of the Capistrano Unified School  
District, which is acting in its capacity as the  
legislative body of the Community Facilities  
District No. 98-2 of the Capistrano Unified  
School District (Ladera)

GOVERNMENT FINANCIAL STRATEGIES inc.,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO THE REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of District: COMMUNITY FACILITIES DISTRICT NO. 98-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (LADERA)

Name of Issue: \$87,480,000 COMMUNITY FACILITIES DISTRICT NO. 98-2 OF THE CAPISTRANO UNIFIED SCHOOL DISTRICT (LADERA) SERIES 2015 SPECIAL TAX REFUNDING BONDS

Date of Issuance: July 30, 2015

NOTICE IS HEREBY GIVEN that Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of July 1, 2015. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

GOVERNMENT FINANCIAL STRATEGIES INC.,  
as Dissemination Agent

cc: Capistrano Unified School District

**APPENDIX E**  
**FORM OF OPINION OF BOND COUNSEL**

\_\_\_\_\_, 2015

Community Facilities District No. 98-2 of the  
Capistrano Unified School District (Ladera)  
San Juan Capistrano, California

*Re:    \$87,480,000 Community Facilities District No. 98-2 of the Capistrano Unified School  
      District (Ladera) 2015 Subordinate Special Tax Refunding Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Capistrano Unified School District (the "School District") taken in connection with the formation of Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) (the "Community Facilities District") and the authorization and issuance of the Community Facilities District No. 98-2 of the Capistrano Unified School District (Ladera) 2015 Subordinate Special Tax Refunding Bonds in the aggregate principal amount of \$87,480,000 (the "2015 Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the School District, the Community Facilities District, the initial purchasers of the 2015 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2015 Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of July 1, 2015 (the "Indenture") between the Community Facilities District and U.S. Bank National Bank, as trustee (the "Trustee"). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The 2015 Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The 2015 Bonds bear interest payable semiannually on each March 1 and September 1, commencing on March 1, 2016, at the rates per annum set forth in the Indenture. The 2015 Bonds are registered bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

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

(1) The 2015 Bonds have been duly and validly authorized by the Community Facilities District and are legal, valid and binding limited obligations of the Community Facilities District, enforceable in accordance with their terms and the terms of the Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, and by the limitations on legal remedies against public agencies in the State of California. The 2015 Bonds are limited obligations of the Community Facilities District but are not a debt of the School District, the County of Orange, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit

nor the taxing power of the School District, the County of Orange, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Indenture has been duly authorized by the Community Facilities District, and the Indenture is valid and binding upon the Community Facilities District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, and by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the Community Facilities District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any provisions therein relating to indemnification, penalty, waiver, choice of law or choice of forum.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, and by the limitations on legal remedies against public agencies in the State of California. The pledge of the Net Taxes under the Indenture is subordinate to the prior pledge of Net Taxes made under the 2005 Bonds Indenture which secures the 2005 Bonds.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2015 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(5) Interest (and original issue discount) on the 2015 Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a 2015 Bond (the first price at which a substantial amount of the 2015 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2015 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the 2015 Bondowner's basis in the applicable 2015 Bond. Original issue discount that accrues for the Bondowner is excluded from the gross income of such Bondowner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (4) above) and is exempt from State of California personal income tax.

(7) The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable 2015 Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2015 Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable 2015 Bond premium reduces the Bondowner's basis in the applicable 2015 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes.

The basis reduction as a result of the amortization of 2015 Bond premium may result in a Bondowner realizing a taxable gain when a 2015 Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the 2015 Bond to the Bondowner.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2015 Bonds are subject to the condition that the Community Facilities District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2015 Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2015 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015 Bonds. The Community Facilities District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the 2015 Bonds.

Certain requirements and procedures contained or referred to in the Indenture and Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Indenture and Tax Certificate, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest on the 2015 Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement with respect to the 2015 Bonds terminates upon their issuance, and we disclaim any obligation to update the matters set forth herein.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2015 Bonds and expressly disclaim any duty to advise any owners of the 2015 Bonds, or interests therein, with respect to the matters contained in the Official Statement and any other offering material relating to the 2015 Bonds.

Respectfully submitted,

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## APPENDIX F

### BOOK-ENTRY AND DTC

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2015 Bonds, payment of principal of and interest on the 2015 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2015 Bonds, confirmation and transfer of beneficial ownership interests in the 2015 Bonds and other bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2015 Bonds is based solely on information furnished by DTC to the Community Facilities District which the Community Facilities District believes to be reliable, but the Community Facilities District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2015 Bonds. The 2015 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 2015 Bond will be issued for each maturity of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information on such website is not incorporated herein by such reference or otherwise.

Purchases of 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2015 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 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2015 Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2015 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 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 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 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such tenders, defaults, and proposed amendments to the 2015 Bonds documents. For example, Beneficial Owners of the 2015 Bonds may wish to ascertain that the nominee holding the 2015 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 Trustee and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2015 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 School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Community Facilities District or the 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 Community Facilities District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Community Facilities District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Community Facilities District or the

Trustee. Under such circumstances, in the event that a successor depository is not obtained, the 2015 Bond certificates are required to be printed and delivered.

The Community Facilities District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the 2015 Bond certificates will be printed and delivered to DTC.

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

### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the 2015 Bonds, or (b) the Community Facilities District determines that DTC shall no longer act and delivers a written certificate to the Trustee to that effect, then the Community Facilities District will discontinue the Book-Entry System with DTC for the 2015 Bonds. If the Community Facilities District determines to replace DTC with another qualified securities depository, the Community Facilities District will prepare or direct the preparation of a new single separate, fully-registered 2015 Bond for each maturity of the 2015 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Community Facilities District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2015 Bonds, then the 2015 Bonds shall no longer be restricted to being registered in the 2015 Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2015 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2015 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2015 Bonds will be payable upon surrender thereof at the trust office of the Trustee identified in the Indenture, and (iii) the 2015 Bonds will be transferable and exchangeable as provided in the Indenture.

*The Community Facilities District and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2015 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the 2015 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the 2015 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2015 Bonds or the Indenture. The Community Facilities District and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2015 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The Community Facilities District and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2015 Bonds or any error or delay relating thereto.*

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**APPENDIX G**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIAL MEMBER



**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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