

**NEW ISSUE**

**NOT RATED**

*In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2004 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although such interest is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liabilities. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS – Tax Exemption" herein.*

**\$3,700,000**

**HEMET UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
2004 SPECIAL TAX BONDS**

**Dated: Date of Delivery**

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

The 2004 Special Tax Bonds (the "2004 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and a Fiscal Agent Agreement, dated as of December 1, 2004, by and between Community Facilities District No. 2004-1 of the Hemet Unified School District (the "Community Facilities District") and U. S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The 2004 Bonds are payable from proceeds of special taxes levied on property within Zone 1 of the Community Facilities District (the "Special Taxes") according to the rate and method of apportionment of special tax approved by the Governing Board (the "Board") of the Hemet Unified School District (the "School District"), acting as the Legislative Body of the Community Facilities District and by the qualified electors within Zone 1 of the Community Facilities District.

The 2004 Bonds are being issued (i) to finance, either directly or indirectly, the acquisition and construction of certain school facilities and water and sewer improvements (the "Facilities") of benefit to Zone 1 of the Community Facilities District, (ii) to fund a Reserve Fund for the 2004 Bonds, (iii) to fund capitalized interest through September 1, 2005, on the 2004 Bonds, (iv) to pay certain administrative expenses of the Community Facilities District and (v) to pay the costs of issuing the 2004 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS" herein.

Interest on the 2004 Bonds is payable semiannually on each March 1 and September 1 commencing March 1, 2005. The 2004 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2004 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 2004 Bonds as described herein under "THE 2004 BONDS — Book-Entry and DTC."

*The 2004 Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from prepayment of Special Taxes as described herein.*

**THE 2004 BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE 2004 BONDS, ARE NOT AN INDEBTEDNESS OF THE SCHOOL DISTRICT, THE STATE OF CALIFORNIA (THE "STATE") OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE ON THE 2004 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SCHOOL DISTRICT, THE COMMUNITY FACILITIES DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN) OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2004 BONDS. OTHER THAN THE NET TAXES WITHIN ZONE 1 OF THE COMMUNITY FACILITIES DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2004 BONDS. THE 2004 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET TAXES LEVIED IN ZONE 1 OF THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.**

*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. Investment in the 2004 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2004 Bonds.*

**Please refer to the inside cover page for a summary of the principal amounts, interest rates, reoffering yields for the Bonds.**

*The 2004 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the School District and subject to certain other conditions. McFarlin & Anderson LLP, Lake Forest, California, is acting as Underwriter's Counsel. Certain legal matters will be passed on for the School District by Bowie, Arneson, Wiles & Giannone, Newport Beach, California. It is anticipated that the 2004 Bonds, in book-entry form, will be available for delivery to DTC, in New York, New York on or about December 21, 2004.*



Dated: December 7, 2004

## MATURITY SCHEDULE

### 2004 SPECIAL TAX BONDS

**\$1,095,000 Serial Bonds**

Base CUSIP<sup>●</sup> No. 423540<sup>1</sup>

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>●</sup> No.<sup>1</sup></u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>●</sup> No.<sup>1</sup></u>
2007	\$ 10,000	3.10%	3.10%	AA1	2016	\$ 60,000	4.75%	4.80%	AK9
2008	10,000	3.35	3.35	AB9	2017	65,000	4.75	4.90	AL7
2009	15,000	3.60	3.60	AC7	2018	75,000	5.00	5.00	AM5
2010	20,000	3.85	3.85	AD5	2019	85,000	5.00	5.10	AN3
2011	25,000	4.10	4.10	AE3	2020	90,000	5.125	5.15	AP8
2012	30,000	4.25	4.30	AF0	2021	100,000	5.125	5.20	AQ6
2013	40,000	4.35	4.40	AG8	2022	115,000	5.125	5.25	AR4
2014	45,000	4.45	4.55	AH6	2023	125,000	5.25	5.30	AS2
2015	50,000	4.50	4.70	AJ2	2024	135,000	5.375	5.40	AT0

\$2,605,000% 5.625% Term 2004 Bonds due September 1, 2035, Yield 5.75% CUSIP<sup>●</sup> No. 423540AU7<sup>1</sup>

<sup>1</sup> CUSIP<sup>●</sup> A registered trademark of the American Bankers Association. Copyright<sup>●</sup> 1999-2004 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. CUSIP<sup>●</sup> data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP<sup>●</sup> numbers are provided for convenience of reference only. Neither the School District nor the Underwriter takes any responsibility for the accuracy of such numbers.

## **HEMET UNIFIED SCHOOL DISTRICT**

### **GOVERNING BOARD**

Gisela Gosch, *President\**  
Marilyn Forst, *Vice President\**  
Tom DeSantis, *Member*  
Charlotte Jones, *Member*  
Phyllis Petri, *Member*  
Bill Sanborn, *Member*  
Mike Cook, *Member*

### **DISTRICT CHIEF ADMINISTRATORS**

Dr. Philip O. Pendley Ed.D., *Superintendent and Secretary to the Governing Board*  
Jonathan Greenberg, Ed.D., *Deputy Superintendent, Personnel Services*  
Richard Beck, *Assistant Superintendent, Business Services*  
Mary Wulfsberg, *Assistant Superintendent, Educational Services*

### **BOND COUNSEL**

Bowie, Arneson, Wiles & Giannone  
Newport Beach, California

### **UNDERWRITER'S COUNSEL**

McFarlin & Anderson LLP  
Lake Forest, California

### **APPRAISER**

Harris Realty Appraisal  
Newport Beach, California

### **SPECIAL TAX CONSULTANT AND ADMINISTRATOR**

David Taussig & Associates, Inc.  
Newport Beach, California

### **FISCAL AGENT**

U. S. Bank National Association  
Los Angeles, California

\*Reflects new officers elected as of December 7, 2004.

NO DEALER, BROKER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION WITH RESPECT TO THE 2004 BONDS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE SCHOOL DISTRICT OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE DESCRIBED ON THE COVER PAGE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE 2004 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2004 BONDS.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the School District, or other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. 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 to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the School District since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE 2004 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2004 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE 2004 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2004 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.



Hemet Unified School District  
Community Facilities District No 2004-1  
Zone 1



Cawston Ave

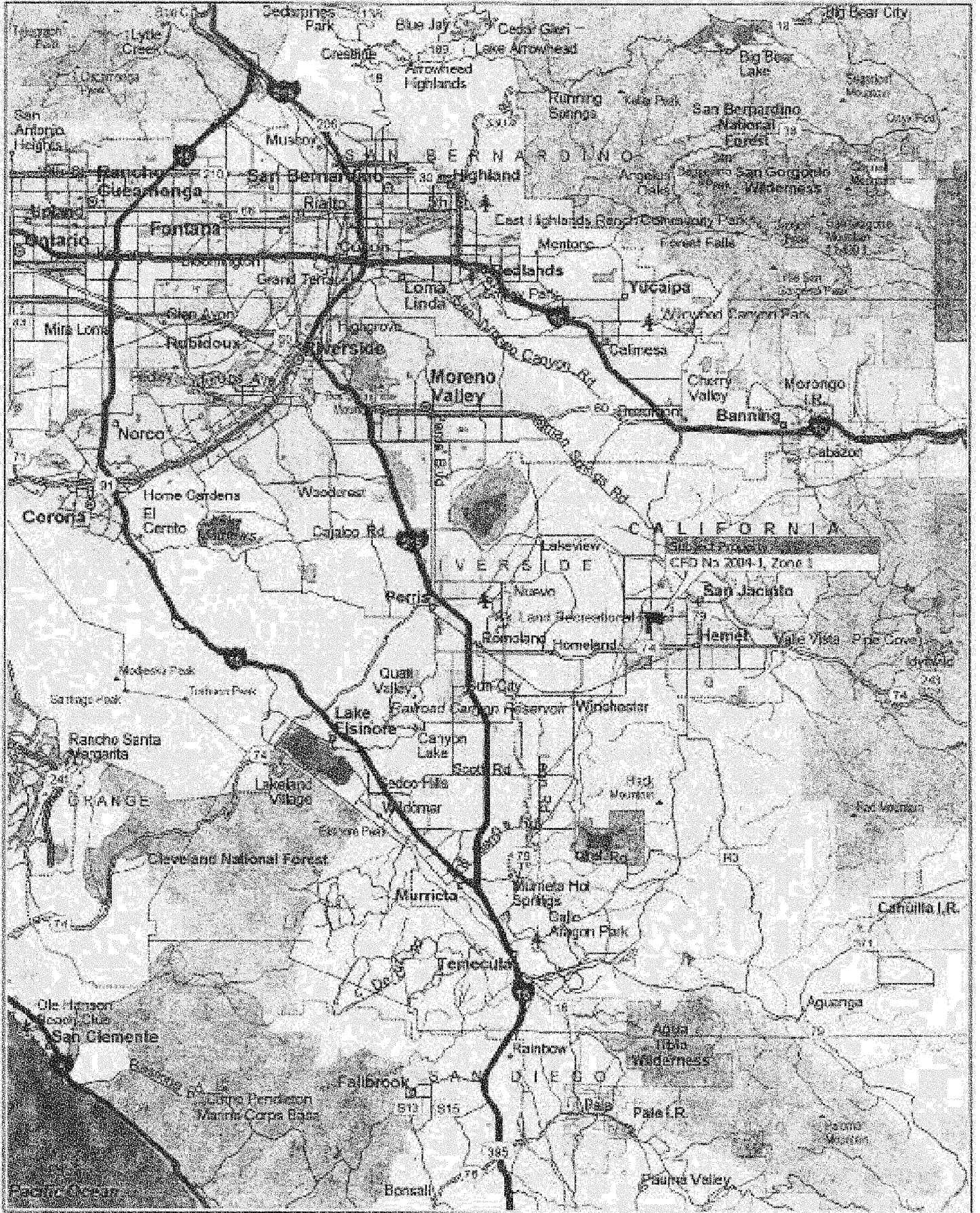
Subject

Sanderson Ave

Hill Valley Ave

Almond Ave





Subject Property  
CFD No 2004-1, Zone 1

## **SELECTED ESSENTIAL FACTS**

*The following summary does not purport to be complete. Reference is hereby made to the complete Official Statement in this regard. Further, the following summary makes certain assumptions regarding valuation of property within the Community Facilities District. The School District does not make any representation as to the current value of Zone 1 property in the School District or provides any assurance as to the estimated values of property being achieved (see “**BONDOWNERS’ RISKS**” herein).*

### **THE 2004 BONDS**

Principal Amount of 2004 Bonds:	\$3,700,000
Additional Bonds:	No Additional Bonds on a parity with the 2004 Bonds are authorized (see “ <b>SECURITY FOR THE 2004 BONDS – Additional Bonds for Refunding Purposes Only</b> ” herein).
First Optional Redemption Date:	September 1, 2012 at 100% of Principal Amount (See “ <b>THE 2004 BONDS – Redemption</b> ” herein).
Special Mandatory Redemption Date:	On any Interest Payment Date from prepayment of Special Taxes at the premium, as described herein.
Primary Source of Repayment:	The 2004 Bonds are payable from Net Taxes as defined herein received from the payment of the 2004 Bonds and certain other sources (see “ <b>INTRODUCTION – Sources of Payment for the 2004 Bonds</b> ” and “ <b>BONDOWNERS’ RISKS</b> ” herein).
Priority:	All 2004 Bonds secured by a first pledge of and lien on the Net Taxes as described herein (see “ <b>SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT</b> ” herein).

### **THE DISTRICT**

Estimated Acreage in Zone 1:	38.2
Discounted “Bulk Value” of Parcels in Zone 1:	\$11,100,000
Ratio of Market Value within Zone 1 to Principal Amount of District Bonds released at Bond Closing (1):	3 to 1

## **PROPERTY OWNERS AND DEVELOPMENT**

Description of Proposed Development:	Approximate 151 single family residential units (see “ <b>THE COMMUNITY FACILITIES DISTRICT NO. 2004-1 – General Information</b> ” herein).
Zone 1 Property Owner(s) on the Date of Delivery of the 2004 Bonds:	Hemet/San Jacinto Ventures, LLC, a Delaware limited liability company.
Developer in Zone 1:	Hemet/San Jacinto Ventures, LLC, a Delaware limited liability company.
Governmental Approvals:	Tract No. 28558: Final Map (76 residential lots) recorded August 21, 2003; Tentative Tract No. 31295: Tentative Map (75 residential lots) approved December 2003 with Final Map expected to be recorded in February 2005.
Start of Grading:	Tract No. 28558: grading completed; Tentative Tract No. 31295 grading to commence December 2004 and expected to be completed in February 2005.
Model Homes:	3 model homes completed for Tract No. 28558
Start of Production Homes:	Tract No. 28558: 40 homes under construction (as of November 17, 2004); Tentative Tract No. 31295: home construction expected to commence July 2005.
Absorption Period:	Through 2006
Estimated Price Range of Homes:	\$300,000 to \$332,000
Size of Homes:	1,896-2,639 sq. ft.

See “**THE COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Property Ownership and Development**” herein for a more complete summary of the proposed development.

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## OFFICIAL STATEMENT

**\$3,700,000**  
**HEMET UNIFIED SCHOOL DISTRICT**  
**COMMUNITY FACILITIES DISTRICT NO. 2004-1**  
**2004 SPECIAL TAX BONDS**

### INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2004 Bonds to potential investors is made only by means of the entire Official Statement.*

#### **General**

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Hemet Unified School District Community Facilities District No. 2004-1 2004 Special Tax Bonds (the “2004 Bonds” or the “Bonds”).

The 2004 Bonds are issued pursuant to the Act (as defined below) and a Fiscal Agent Agreement, dated as of December 1, 2004 (the “Fiscal Agent Agreement”), by and between Hemet Unified School District Community Facilities District No. 2004-1 (the “Community Facilities District”) and U. S. Bank National Association, as fiscal agent (the “Fiscal Agent”). See “THE 2004 BONDS – Authority for Issuance” herein.

#### **The School District**

The Hemet Unified School District (the “School District”) was established on July 1, 1966, as a result of the unification of the Alamos and Cottonwood Districts, the Hemet Valley Union School District and the Hemet Union High School District. The School District covers approximately 740 square miles in the western part of Riverside County. The City of Hemet (the “City”) and unincorporated communities of Idyllwild, Anza, Aguanga and Winchester are situated within the School District’s boundaries. The City is located approximately forty-five miles west of Palm Springs, seventy-five miles north of San Diego, sixty-five miles east of Los Angeles and thirty-five miles southeast of Riverside. The School District’s total population is approximately 105,000.

The School District currently operates eleven elementary schools, three middle schools, three high schools, one continuation high school, one alternative high school, three kindergarten through grade eight schools and classes for adult education.

The School District is governed by a seven member Governing Board. The members are elected to four-year terms.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the School District. Additional information concerning the School District and copies of the most recent and subsequent audited financial reports of the School District may be obtained by contacting: Hemet Unified School District, 2350 West Latham Avenue, Hemet, California, 92545 Attention: Richard M. Beck, Assistant Superintendent, Business Services.

#### **The Community Facilities District**

The Community Facilities District was formed and established by the School District on September 21, 2004, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code, the “Act”), following a public hearing and a landowner election at which the qualified electors of the Community Facilities District, by more than a two-thirds vote, authorized the Community Facilities District to incur bonded indebtedness for school facilities and water and sewer facilities in the aggregate not-to-exceed amount of \$250,000,000 and approved the levy of special taxes.

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

The property comprising the security for the Bonds is located in Zone 1, as such term is described in the Rate and Method (hereinafter defined), of the Community Facilities District. The District authorized the issuance of the 2004 Bonds secured by special taxes within Zone 1; the 2004 Bonds are secured by the special taxes authorized to be levied within Zone 1 (the "Special Taxes") in accordance with the Rate and Method. There will be no additional bonds issued with a parity lien against the Net Taxes from Zone 1 of the Community Facilities District.

The 23.98 acres of property subject to the Special Tax within Zone 1 of the Community Facilities District is expected to be developed into 151 single-family detached residential units on approximately 38.2 gross acres (the "Development").

Hemet/San Jacinto Ventures, LLC, a Delaware limited liability company ("Hemet/San Jacinto Ventures, LLC" or the "Developer"), plans to build and sell houses on the 151 lots with the first sales and closings expected in the first quarter of 2005 and full build-out expected by the fourth quarter of 2006. Detailed information about the location of and property ownership and land uses in the Community Facilities District is set forth in "COMMUNITY FACILITIES DISTRICT NO. 2004-1" herein.

### **Minimum Annual Special Tax Requirement**

With respect to all Taxable Property within Zone 1 and pursuant to the Rate and Method (hereinafter defined), the Board will levy the Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel. If the sum of the amounts collected from Developed Property are insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board will levy Proportionately an Annual Special Tax on each Assessor's Parcel of Undeveloped Property, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement. If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property up to the Maximum Annual Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement. The Minimum Annual Special Tax Requirement is defined in the Rate and Method as the amount required in any Fiscal Year to pay (i) the debt service or the periodic costs on all outstanding 2004 Bonds, (ii) Administrative Expenses of the Community Facilities District, (iii) the costs associated with the release of funds from an escrow account, if applicable, and (iv) any amount available to pay debt service or other periodic costs on the Bonds pursuant to any applicable bond indenture, fiscal agent agreement, or trust agreement. See "SECURITY FOR THE 2004 BONDS – Rate and Method."

The Rate and Method is planned to be amended for development in areas of the Community Facilities District not within Zone 1; therefore, such amendment will not affect the levy of special taxes on the property within Zone 1 or the security for the 2004 Bonds.

### **Purpose of the 2004 Bonds**

A portion of the proceeds of the 2004 Bonds will be used to finance schools and school facilities and a portion of the proceeds will be used to finance the costs of water and sewer facilities of the Eastern Municipal Water District ("EMWD"). The cost of the school facilities is required to exceed the cost of the water and sewer facilities. The Community Facilities District was formed in connection with a School Facilities Funding and Mitigation Agreement between the School District and the Developer (the "Mitigation Agreement"). The EMWD facilities are being constructed in accordance with the terms of the Joint Community Facilities Agreement approved by the Board on September 21, 2004 by and among the School District, the Developer and EMWD. See "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS" and "COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Property Ownership and Development" herein.



## Sources of Payment for the 2004 Bonds

The 2004 Bonds are secured by and payable from a first pledge of “Net Taxes,” which is defined within the Fiscal Agent Agreement as the amount of all Gross Taxes minus Administrative Expenses up to a maximum of \$30,000 per Fiscal Year (which shall increase 2% per Fiscal Year commencing with 2005-2006). “Gross Taxes” are defined in the Fiscal Agent Agreement as the amount of all Special Taxes collected within Zone 1 of the Community Facilities District and proceeds from the sale of property located therein collected pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes. “Special Taxes” are defined as the Zone 1 Developed Property special taxes, the Zone 1 Undeveloped Property special taxes, and the Zone 1 Backup special taxes levied by the Legislative Body within Zone 1 of the Community Facilities District pursuant to the Act, the Resolution of Formation (as defined below), Ordinance No. CFD-01 adopted by the Legislative Body of the Community Facilities District on October 5, 2004, providing for the levy of the Special Taxes, and the voter approval obtained at the October 5, 2004, special election held within the Community Facilities District. “Administrative Expenses” are defined as including the administrative costs with respect to the calculation and collection of the Special Taxes and any other costs related to the 2004 Bonds, including the fees and expenses of the Fiscal Agent and any persons, parties, consultants or attorneys employed pursuant to the covenants of the Fiscal Agent Agreement, costs and legal expenses of foreclosure actions or costs otherwise incurred by the Community Facilities District in order to carry out the authorized purposes of the 2004 Bonds.

Pursuant to the Act, the First Amended Rate and Method of Apportionment of Special Tax (the “Rate and Method”), the Resolution of Formation and the Fiscal Agent Agreement, so long as the 2004 Bonds are outstanding, the Community Facilities District will annually fix and levy the amount of Special Taxes within Zone 1 of the Community Facilities District required for the payment of principal of and interest on Outstanding 2004 Bonds becoming due and payable during the ensuing year including any necessary replenishment or expenditure of the Reserve Fund for the 2004 Bonds, any amount equal to the Administrative Expense Requirement and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes. See “SECURITY FOR THE 2004 BONDS – Special Taxes” herein.

Pursuant to the Act, all lands owned by a public entity within Zone 1 of the Community Facilities District are omitted from the levy of the Special Tax, *unless* the public entity acquires the property after recording the Notice of Special Tax Lien, in which case the public entity will be obligated to pay the Special Tax, subject to certain limitations. The Rate and Method exempts from the Special Taxes 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 2004 BONDS – Rate and Method” and “BONDOWNERS’ RISKS – Exempt Properties.”

The 2004 Bonds are secured by a first pledge of all moneys deposited in the Reserve Fund. See “SECURITY FOR THE 2004 BONDS.” The Reserve Fund will be established out of the proceeds of the sale of the 2004 Bonds, in an amount equal to the Reserve Requirement. The Fiscal Agent Agreement defines the Reserve Requirement with respect to the 2004 Bonds as an amount, as of any date of calculation, equal to the least of (i) 10% of the original principal amount of the 2004 Bonds, less original issue discount, if any, plus original issue premium, if any, (ii) “Maximum Annual Debt Service” on the 2004 Bonds (as defined in the Fiscal Agent Agreement), and (iii) 125% of average annual debt service on the 2004 Bonds. The ability of the Governing Board of the School District (the “Board”), in its capacity as Legislative Body of the Community Facilities District, to increase the annual Special Taxes levied to replenish the Reserve Fund is subject to the maximum annual amount of Special Taxes authorized by the qualified voters of the Community Facilities District. The moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on, the 2004 Bonds, and at the direction of the Community Facilities District, for payment of rebate obligations related to the 2004 Bonds. See “SECURITY FOR THE 2004 BONDS – Reserve Fund.”

The Community Facilities District has also covenanted in the Fiscal Agent Agreement to cause foreclosure proceedings to be commenced and prosecuted against certain parcels within Zone 1 with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant, see “SECURITY FOR THE 2004 BONDS – Proceeds of Foreclosure Sales.”

**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 2004 BONDS. OTHER THAN THE NET TAXES WITHIN ZONE 1 OF THE COMMUNITY FACILITIES DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2004 BONDS. THE 2004 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET TAXES WITHIN ZONE 1 OF THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.**

### **Appraisal**

An appraisal prepared by an MAI appraiser of the land and existing improvements for the development within Zone 1 of the Community Facilities District dated October 20, 2004 ( the "Appraisal"), has been prepared by Harris Realty Appraisal of Newport Beach, California (the "Appraiser") in connection with issuance of the 2004 Bonds. The purpose of the appraisal was to estimate the value of the as is condition of the land, and reflecting the proposed Community Facilities District financing together with the overall tax rate of approximately [1.7 to 1.8%] to the future homeowners, including the Special Taxes. The subject property includes property proposed for development of 151 single-family detached units. The Appraisal is based on certain assumptions. Subject to these assumptions, the Appraiser estimated that the fee simple market value of the property within Zone 1 of the Community Facilities District (subject to the lien of the Special Taxes) as of October 15, 2004 was \$11,100,000.

The fee simple market value includes the value of grading and infrastructure improvements. The market values reported in the Appraisal result in an estimated value-to-lien ratio of 3 to 1, calculated with respect to all direct and overlapping tax and assessment debt as of November 1, 2004. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See "BONDOWNERS' RISKS – Appraised Values" and " – Burden of Parity Liens, Taxes and Other Special Assessments on the Taxable Property" herein and APPENDIX C – "Summary Appraisal Report" appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal. See also "COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Transportation Uniform Mitigation Fee; Multiple Species Habitat Conservation Plan Fee" for a description of a new fee relating to all development within western Riverside County which may affect market values.

### **Tax Exemption**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2004 Bonds will not be includable in 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 2004 Bonds will be exempt from State personal income taxes. See "LEGAL MATTERS – Tax Exemption" herein.

### **Risk Factors Associated with Purchasing the 2004 Bonds**

Investment in the 2004 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 2004 Bonds.

### **Forward Looking Statements**

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

caption “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – General Information” and “ – Property Ownership and Development” therein.

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

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

U. S. Bank National Association, Los Angeles, California, will serve as the paying agent, registrar, authentication and transfer agent for the 2004 Bonds and will perform the functions required of it under the Fiscal Agent Agreement for the payment of the principal of and interest and any premium on the 2004 Bonds and all activities related to the redemption of the 2004 Bonds. Bowie, Arneson, Wiles & Giannone, Newport Beach, California is serving as Bond Counsel to the Community Facilities District and as special counsel to the School District. Southwest Securities, Inc., is acting as Underwriter in connection with the issuance and delivery of the 2004 Bonds. McFarlin & Anderson LLP, Lake Forest, California, is acting as Underwriter’s Counsel.

The appraisal work was done by Harris Realty Appraisal of Newport Beach, California. David Taussig & Associates, Inc., Newport Beach, California, acted as special tax consultant, administrator and dissemination agent to the Community Facilities District.

*Except for some District Counsel fees and Special Tax Consultant fees paid from advances made to the School District by the Developer, payment of the fees and expenses of Bond Counsel, the Underwriter and the Fiscal Agent is contingent upon the sale and delivery of the 2004 Bonds. Fees of the Appraiser were paid from advances made to the School District by the Developer.*

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Brief descriptions of the 2004 Bonds, certain sections of the Fiscal Agent Agreement, security for the 2004 Bonds, special risk factors, the Community Facilities District, the School District, the Developer’s project, the Developer and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the 2004 Bonds, the Fiscal Agent Agreement, and other resolutions and documents are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the 2004 Bonds, the Fiscal Agent Agreement, such resolutions and other documents. All such descriptions are further qualified in their entirety by reference to laws and to principles of equity relating to or affecting generally the enforcement of creditors’ rights. Copies of such documents may be obtained from the Office of the Clerk of the Governing Board of the Hemet Unified School District, 2350 West Latham Avenue, Hemet, California 92545.

## **CONTINUING DISCLOSURE**

*The Community Facilities District.* The Community Facilities District has covenanted in the Community Facilities District Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – “Form of Community Facilities District Continuing Disclosure Agreement” (the “Community Facilities District Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2004 Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the 2004 Bonds by not later than January 30 in each year commencing on January 30, 2006 (the “Community Facilities District Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material.

The Community Facilities District Annual Report will be filed by the Community Facilities District, or David Taussig & Associates, Inc., as Dissemination Agent on behalf of the Community Facilities District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State repository, if any (collectively, the “Repositories”), with a copy to the Fiscal Agent and the Underwriter. Any notice of a material event will be filed by the Community Facilities District, or the Dissemination Agent on behalf of the Community Facilities District, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Fiscal Agent and the Underwriter. The specific nature of the information to be contained in the Community Facilities District Annual Report or any notice of a material event is set forth in the Community Facilities District Continuing Disclosure Agreement. The covenants of the Community Facilities District in the Community Facilities District Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”); provided, however, a default under the Community Facilities District Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Fiscal Agent Agreement, and the sole remedy under the Community Facilities District Continuing Disclosure Agreement in the event of any failure of the Community Facilities District or the Dissemination Agent to comply with the Community Facilities District Continuing Disclosure Agreement will be an action to compel performance.

Neither the School District nor the Community Facilities District has ever failed to comply, in any material respect, with an undertaking under the Rule.

*Developer.* The Developer has covenanted in its Developer Continuing Disclosure Agreement, the form of which is set forth in APPENDIX F – “Form of Developer Continuing Disclosure Agreement” (the “Developer Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the 2004 Bonds, to provide certain financial and operating information by not later than March 1 and September 1 of each year, commencing March 1, 2005 (the “Developer Semi-Annual Report”), and to provide notices of the occurrence of certain enumerated material events. The Developer’s obligations under the Developer Continuing Disclosure Agreement terminates upon the occurrence of certain events. See APPENDIX F – “Form of Developer Continuing Disclosure Agreement.”

The Developer Semi-Annual Reports will be filed by the Developer, or the applicable “Dissemination Agent” (as that term is defined in the Developer Continuing Disclosure Agreement) on behalf of the Developer, with the Repositories, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. Any notice of a material event will be filed by the Developer, or by the Dissemination Agent on behalf of the Developer, with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Underwriter, the Fiscal Agent and the Community Facilities District. The specific nature of the information to be contained in the Developer Semi-Annual Reports or the notices of material events is set forth in the Developer Continuing Disclosure Agreement. The covenants of the Developer in its Developer Continuing Disclosure Agreement has been made in order to assist the Underwriter in complying with the Rule; provided, however, a default under a Developer Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Fiscal Agent Agreement, and the sole remedy under the Developer Continuing Disclosure Agreement in the event of any failure of a Developer or the Dissemination Agent to comply with such Developer Continuing Disclosure Agreement will be an action to compel performance. The Developer’s continuing disclosure obligations will terminate upon the occurrence of certain events, including when a Developer’s property is subject to less than 20% of the Special Tax levy of the Community Facilities District for the then current Fiscal Year. Based on the estimated absorption and estimated sales of property provided by the Developer, such date is estimated to occur by the end of the third quarter of 2006 and the last Semi-Annual Report of the Developer is estimated to be provided by March 1, 2007, with a filing under the Developer Continuing Disclosure Agreement that the Developer has no further disclosure obligations under the Developer Continuing Disclosure Agreement by September 1, 2006.

The Developer has indicated that it is not aware of any material failures to comply with previous undertakings by it under the Rule to provide annual or semi-annual reports or notices of material events with respect to community facilities districts or assessment districts in California within the past five years.

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds from the sale of the 2004 Bonds will be deposited into the following respective accounts and funds established by the School District under the Fiscal Agent Agreement, as follows:

*Sources:*

Principal Amount of 2004 Bonds	\$3,700,000.00
Less: Underwriter’s Discount	44,400.00
Less: Original Issue Discount	<u>54,346.60</u>
<i>Total Sources</i>	\$3,601,253.40

*Uses:*

Deposit into the Reserve Fund <sup>(1)</sup>	\$ 341,285.84
Deposit into Costs of Issuance Account of the Construction Fund <sup>(2)</sup>	218,067.90
Deposit into Construction Fund <sup>(3)</sup>	2,842,895.31
Deposit into Capitalized Interest Subaccount of the Interest Account of the Bond Fund <sup>(4)</sup>	139,004.35
Administrative Expense Fund <sup>(5)</sup>	<u>60,000.00</u>
<i>Total Uses</i>	\$3,601,253.40

- (1) Equal to the Reserve Requirement with respect to the 2004 Bonds as of the date of delivery of the 2004 Bonds.
- (2) Includes, among other things, the fees and expenses of Bond Counsel, District Counsel, the cost of printing the preliminary and final Official Statements, fees and expenses of the Fiscal Agent, the cost of the Appraisal, the fees of the Special Tax Consultant and reimbursement to the Developer.
- (3) \$2,009,677.31 will be deposited into the School Facilities Account. \$833,218.00 will be deposited into the EMWD Facilities Account. See “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS” below.
- (4) Represents interest on the 2004 Bonds to September 1, 2005.
- (5) Prefunded administrative expenses.

**FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS**

The Community Facilities District will finance school facilities and a portion of the facilities costs for EMWD water and sewer improvements. Proceeds of the 2004 Bonds may be used for the planning, design, acquisition, construction, leasing, expansion, improvement, rehabilitation and financing of authorized facilities. Such facilities include elementary school facilities, middle school facilities and high school facilities, including in each case site and site improvements, including landscaping, access roadways, drainage, sidewalks and gutters, utility lines, playground areas and equipment, classrooms, recreational facilities, on-site office space at a school, central support and administrative facilities, interim housing, and transportation facilities needed by the School District to serve the student population to be generated as a result of development of the property within the Community Facilities District. In addition, non-school facilities include off-site EMWD backbone water and sewer facilities with useful lives of five years or longer, including such facilities provided through water backup facility fees, sewer backup facility fees and sewer treatment capacity charges.

The Mitigation Agreement sets forth terms for the issuance of bonds by the Community Facilities District to finance the impact of the development of property within the Community Facilities District upon the School District’s school facilities and to finance a portion of the facilities costs for EMWD water and sewer improvements. The water and sewer facilities to be financed by the Community Facilities District are further described in a Joint Community Facilities Agreement (“JCFA”) entered into by and between the

School District and EMWD. The Developer remains responsible for all of its obligations under the Mitigation Agreement and other development approvals to the extent not satisfied with Bond proceeds.

## **THE 2004 BONDS**

### **Authority for Issuance**

The 2004 Bonds will be issued pursuant to the Act, the authorizations obtained, the Fiscal Agent Agreement and the Resolutions authorizing the issuance of the 2004 Bonds. See “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Authority for Issuance” herein.

### **General Provisions**

The 2004 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2005 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the cover page hereof. The 2004 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 2004 Bonds. Ownership interests in the 2004 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 2004 Bonds are held in book-entry form, principal of, premium, if any, and interest on the 2004 Bonds will be paid directly to DTC for distribution to the beneficial owners of the 2004 Bonds in accordance with the procedures adopted by DTC. See “THE 2004 BONDS – Book-Entry and DTC.”

The 2004 Bonds will bear interest at the rates set forth on the 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 2004 Bond will bear interest from the Interest Payment Date next preceding the date of authentication 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 (as defined below) but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from such Interest Payment Date, or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the dated date of such 2004 Bonds; provided, however, that if at the time of authentication of a 2004 Bond, interest is in default, interest on that 2004 Bond shall be payable from the last date on which interest has been paid or made available for payment, or if no interest has been paid or made available for payment, interest shall be payable from the dated date of such 2004 Bond. “Record Date” means the 15<sup>th</sup> day of the calendar month preceding an Interest Payment Date whether or not such day is a business day.

Interest on the 2004 Bonds shall be paid by check of the Fiscal Agent mailed to the registered Bondowner by first class mail at his or her address as it appears on the Bond Register as of the Record Date; provided that, in the case of an Owner of \$1,000,000 or more in aggregate principal amount of the 2004 Bonds, upon the Fiscal Agent’s receipt of written request of such Owner prior to the Record Date accompanied by wire transfer instructions, such interest shall be paid on the Interest Payment Date in immediately available funds by wire transfer to an account in the United States. The principal of the 2004 Bonds and any premium due upon redemption on the 2004 Bonds are payable by check in lawful money of the United States of America upon presentation of the 2004 Bonds at the principal corporate trust office of the Fiscal Agent (currently in Los Angeles, California).

## Debt Service Schedule

The following table presents the annual debt service on the 2004 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions or mandatory redemptions from special taxes.

Year Ending September 1	Principal	Interest	Total Debt Service
2005	–	\$139,004.35	\$139,004.35
2006	–	200,166.26	200,166.26
2007	\$10,000	200,166.26	210,166.26
2008	10,000	199,856.26	209,856.26
2009	15,000	199,521.26	214,521.26
2010	20,000	198,981.26	218,981.26
2011	25,000	198,211.26	223,211.26
2012	30,000	197,186.26	227,186.26
2013	40,000	195,911.26	235,911.26
2014	45,000	194,171.26	239,171.26
2015	50,000	192,168.76	242,168.76
2016	60,000	189,918.76	249,918.76
2017	65,000	187,068.76	252,068.76
2018	75,000	183,981.26	258,981.26
2019	85,000	180,231.26	265,231.26
2020	90,000	175,981.26	265,981.26
2021	100,000	171,368.76	271,368.76
2022	115,000	166,243.76	281,243.76
2023	125,000	160,350.00	285,350.00
2024	135,000	153,787.50	288,787.50
2025	150,000	146,531.26	296,531.26
2026	165,000	138,093.76	303,093.76
2027	180,000	128,812.50	308,812.50
2028	195,000	118,687.50	313,687.50
2029	215,000	107,718.76	322,718.76
2030	230,000	95,625.00	325,625.00
2031	250,000	82,687.50	332,687.50
2032	270,000	68,625.00	338,625.00
2033	295,000	53,437.50	348,437.50
2034	315,000	36,843.76	351,843.76
2035	340,000	19,125.00	359,125.00
	<b><u>\$3,700,000</u></b>	<b><u>\$4,680,463.31</u></b>	<b><u>\$8,380,463.31</u></b>

## Redemption

*Optional Redemption.* The 2004 Bonds maturing on or prior to September 1, 2011 are not subject to optional redemption prior to their stated maturity. The 2004 Bonds maturing on or after September 1, 2012 may be redeemed prior to maturity, in whole or in part, at the option of the Community Facilities District on September 1, 2012, or on any Interest Payment Date thereafter prior to maturity pro rata among maturities and by lot within a maturity, at the principal amount thereof, plus accrued interest, without premium.

*Mandatory Sinking Fund Redemption.* The 2004 Bonds maturing on September 1, 2035, are subject to mandatory sinking payment redemption in part by lot on September 1, 2025, and on each September 1 thereafter to and including September 1, 2035. Such 2004 Bonds shall be redeemed from mandatory sinking payments commencing September 1, 2025, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date, without premium, as follows:

<b>Sinking Fund Redemption Date</b>	<b>Sinking Payments</b>
2025	\$150,000
2026	165,000
2027	180,000
2028	195,000
2029	215,000
2030	230,000
2031	250,000
2032	270,000
2033	295,000
2034	315,000
2035 (maturity)	340,000

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the 2004 Bonds pursuant to an optional redemption or mandatory redemption from prepaid Special Taxes as specified in writing by an Authorized Officer to the Fiscal Agent.

*Special Mandatory Redemption from Prepaid Special Taxes.* The 2004 Bonds are subject to special mandatory redemption prior to their stated maturities, in whole or in part, on any Interest Payment Date for which timely notice can be given, in integral multiples of \$5,000 from moneys on deposit in the Prepayment Account of the Special Tax Fund, upon payment of the following redemption prices (expressed as a percentage of the principal amount of the 2004 Bonds to be redeemed), together with accrued interest to the date of redemption:

<b>Redemption Date</b>	<b>Redemption Price</b>
Each Interest Payment Date r through September 1, 2011	102%
September 1, 2011 and March 1, 2012	101
September 1, 2012 and any Interest Payment Date thereafter	100



*Purchase In Lieu of Redemption.* In lieu of, or partially in lieu of, any optional redemption, mandatory sinking fund redemption, or special mandatory redemption, monies deposited in an account of the Redemption Fund may be used to purchase the Outstanding 2004 Bonds that were to be redeemed with such funds in the manner hereinafter provided. Purchases of Outstanding 2004 Bonds may be made by the Community Facilities District prior to the selection of 2004 Bonds for redemption by the Fiscal Agent, at public or private sale as and when and at such prices as the Community Facilities District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, and, in the case of funds in the Optional Redemption Account, the applicable premium to be paid in connection with the proposed redemption. Any accrued interest payable upon the purchase of 2004 Bonds may be paid from the Interest Account of the Bond Fund for payment of interest on the next following Interest Payment Date.

*Notice of Redemption.* The Fiscal Agent shall give notice of any redemption by first class mail, postage prepaid, at least thirty days but no more than sixty days prior to the redemption date, to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books of the Fiscal Agent. The actual receipt by the owner of any 2004 Bond of notice of such redemption shall not be a condition precedent to such redemption, and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such 2004 Bonds, or the cessation of interest on the redemption date.

Such notice shall (i) specify the CUSIP<sup>®</sup> numbers and serial numbers of the 2004 Bonds selected for redemption, except that where all the 2004 Bonds or all 2004 Bonds of a single maturity are subject to redemption, the serial numbers thereof need not be specified; (ii) state the original issue date, the interest rate and the maturity date of the 2004 Bond selected for redemption; (iii) state the date fixed for redemption; (iv) state the redemption price; (v) state the place or places where the 2004 Bonds are to be redeemed; and (vi) in the case of 2004 Bonds to be redeemed only in part, state the portion of such 2004 Bond which is to be redeemed.

*Partial Redemption.* If less than all of the outstanding 2004 Bonds are to be redeemed, the Fiscal Agent shall select the 2004 Bonds to be redeemed pro rata among maturities and by lot within a single maturity, and in the case of mandatory redemption from sinking fund payments, by lot within the maturity being called for redemption, all so as to maintain as close as practicable level annual debt service after such redemption.

*Effect of Redemption.* From and after the date fixed for redemption, if the amount necessary for the redemption has been made available for that purpose, the 2004 Bonds or portions thereof designated for redemption shall be deemed to be no longer outstanding and such 2004 Bonds or portions thereof shall cease to bear further interest. No Owner of any of the 2004 Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Fiscal Agent Agreement, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## **Registration, Transfer and Exchange**

*Registration.* Subject to the provisions relating to book-entry bonds, the Fiscal Agent will keep or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the 2004 Bonds, which shall be open to inspection during regular business hours and upon reasonable notice by the Community Facilities District; and, upon presentation for such purpose, the Fiscal Agent shall, under reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2004 Bonds. The Community Facilities District and the Fiscal Agent may treat and consider the person in whose name each 2004 Bond is registered in the Bond Registrar as the holder and absolute Owner of such 2004 Bond for the purpose of payment of principal and interest with respect to such 2004 Bond, for the purpose of giving notices of prepayment, if applicable, and other matters with respect to such 2004 Bond, for the purpose of registering transfers with respect to such 2004 Bond, and for all other purposes whatsoever.

*Registration of Exchange or Transfer.* Subject to the provisions relating to book-entry bonds, the registration of any 2004 Bond may, in accordance with its terms, be transferred upon the Bond Registrar by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such

Bond for cancellation at the principal corporate trust office of the Fiscal Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney. The 2004 Bonds may be exchanged at the principal corporate trust office of the Fiscal Agent for a like aggregate principal amount and maturity of 2004 Bonds of other authorized denominations. The Fiscal Agent may charge a reasonable fee for any transfer or exchange and may charge the Bondowner any tax or other governmental charge required with respect to such transfer or exchange. Whenever any 2004 Bonds shall be surrendered for registration of transfer or exchange, the Community Facilities District shall execute, and the Fiscal Agent shall authenticate and deliver, a new 2004 Bond, for like aggregate principal amount and maturity; provided, that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) 2004 Bonds for a period of 15 days next preceding the date established by the Fiscal Agent for selection of the 2004 Bonds to be redeemed, or (ii) any 2004 Bonds chosen for redemption.

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2004 Bonds. The 2004 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 2004 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX H – “Book-Entry System.”

## **SECURITY FOR THE 2004 BONDS**

### **General**

The 2004 Bonds are secured by a first pledge of all of the Net Taxes and all moneys deposited in the accounts in the Bond Fund, the Redemption Fund and the Reserve Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. Pursuant to the Act and the Fiscal Agent Agreement, the Community Facilities District will annually levy the Special Taxes in an amount required for the payment of principal of and interest on any outstanding 2004 Bonds of the Community Facilities District becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund for the 2004 Bonds and an amount estimated to be sufficient to pay the Administrative Expenses during such year. The Net Taxes and all moneys deposited into the accounts in said funds (until disbursed as provided in the Fiscal Agent Agreement) are pledged to the payment of the principal of, and interest and any premium on, the 2004 Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the 2004 Bonds have been paid and retired or until moneys or Federal Securities (as defined in the Fiscal Agent Agreement) have been set aside irrevocably for that purpose.

*With respect to Zone 1 of the Community Facilities District, the Rate and Method establishes levying Special Taxes, first on Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor’s Parcel, second on Undeveloped Property, up to the Assigned Annual Special Tax applicable to each such Assessor’s Parcel, to satisfy the Minimum Annual Special Tax Requirement and third on each Assessor’s Parcel of Developed Property, up to the Maximum Annual Special Tax applicable to each such Assessor’s Parcel, to satisfy the Minimum Annual Special Tax Requirement. Furthermore, the share of debt service on the Outstanding Bonds will change if Special Taxes are prepaid. See “– Special Taxes” and “– Rate and Method.”*

Notwithstanding any provision contained in the Fiscal Agent Agreement to the contrary, Net Taxes deposited in the Administrative Fund, the Rebate Fund and the Surplus School Facilities Fund shall no longer be considered to be pledged to the 2004 Bonds and the Administrative Fund, the Construction Fund, the Rebate Fund and the Surplus School Facilities Fund shall not be construed as trust funds held for the benefit of the Bondowners. The facilities constructed and acquired with the proceeds of the 2004 Bonds are not in any way pledged to pay, or security for, the debt service on the 2004 Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the 2004 Bonds are not pledged to pay the debt service on any 2004 Bonds and are free and clear of any lien or obligation imposed under the Fiscal Agent Agreement.

## Special Taxes

The Community Facilities District has covenanted in the Fiscal Agent Agreement to comply with all requirements of the Act so as to assure the timely collection of Special Taxes, including, without limitation, the enforcement of delinquent Special Taxes. The Fiscal Agent Agreement provides that the Special Taxes are payable and will be collected in the same manner and at the same time and in the same installment as the general taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property; provided the Community Facilities District may provide for direct collection of the Special Taxes in certain circumstances.

**With respect to Zone 1 of the Community Facilities District, the Special Tax levy is limited to the maximum Special Tax rates for Zone 1 set forth in the Rate and Method and while the Special Tax is levied on Undeveloped Property, the levy of the Special Tax is limited to the Minimum Annual Special Tax Requirement. 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 2004 Bonds.**

Although the Special Taxes, when levied, will constitute a lien on parcels subject to taxation within Zone 1 of the Community Facilities District, it does not constitute a personal indebtedness of the owners of property within Zone 1 of the Community Facilities District. There is no assurance that the owners of real property within Zone 1 of the Community Facilities District 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.

**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 2004 BONDS. OTHER THAN THE NET TAXES WITHIN ZONE 1, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE 2004 BONDS. THE 2004 BONDS ARE NOT A GENERAL OBLIGATION OF THE COMMUNITY FACILITIES DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE COMMUNITY FACILITIES DISTRICT PAYABLE SOLELY FROM THE NET TAXES WITHIN ZONE 1 OF THE COMMUNITY FACILITIES DISTRICT AS MORE FULLY DESCRIBED HEREIN.**

## Rate and Method

*General.* On September 21, 2004, pursuant to the request of the Developer and the provisions of the Act, the School District established Community Facilities District No. 2004-1 (the "Community Facilities District"). The Community Facilities District is authorized to issue bonded indebtedness and to levy special taxes to pay debt service on such bonded indebtedness and related costs of the School District and the Community Facilities District and to fund school facilities. The qualified electors of the Community Facilities District approved the Rate and Method on September 21, 2004. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

The following description is applicable to Zone 1 of the Community Facilities District:

The special taxes within Zone 1 of the Community Facilities District (the "Special Taxes") may be levied and collected against all Taxable Property (as defined below) for debt service on the 2004 Bonds and to pay costs for school facilities and other costs in accordance with the First Amended Rate and Method of Apportionment (the "Rate and Method"), a copy of which is set forth in APPENDIX B – "First Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of the Hemet Unified School District."

Zone 1 of the Community Facilities District is expected to consist of 151 residential units. On August 21, 2003 Tract No. 28558 was recorded creating 78 residential lots (lots 7 and 8 are to be used as a retention basin). Tentative Tract No. 31295 comprising 75 residential lots is expected by the Developer to be recorded in February 2005.

*Levy of Special Taxes.* The Rate and Method provides the means by which the Board may annually levy the Special Taxes up to the applicable Maximum Annual Special Tax. The 2004 Bonds are to be issued to fund school facilities, water and sewer improvements, and the 2004 Bonds are secured by the Zone 1 Special Taxes levied pursuant to the Rate and Method. The Rate and Method provides that the Annual Special Tax shall be levied for a period of 33 Fiscal Years after the last series of Bonds has been issued, provided that Annual Special Taxes shall not be levied after Fiscal Year 2045-46. A copy of the Rate and Method is included in APPENDIX B hereto.

The Rate and Method is planned to be amended for development in areas of the Community Facilities District not within Zone 1; therefore, such amendment will not effect the levy of special taxes on the property within Zone 1 or the security for the 2004 Bonds.

*Minimum Annual Special Tax Requirement.* Annually, at the time of levying the Special Tax, the Board will levy the Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel. In addition, the Board will determine the amount of money to be collected from Taxable Property (the "Minimum Annual Special Tax Requirement"), which will be

- (i) the amount required in any Fiscal Year to pay the following:
  - (a) the debt service or the periodic costs on all outstanding Bonds;
  - (b) Administrative Expenses (as defined in the Rate and Method);
  - (c) costs associated with the release of funds from an escrow account, if any; and
  - (d) any amount required to replenish any shortfall in the reserve fund or reserve account established in association with the Bond attributable to delinquent Special Taxes.

*Developed and Undeveloped Property; Exempt Property.* The Rate and Method declares that for each Fiscal Year, all Assessor's Parcels within the Community Facilities District shall be classified as Developed Property, Undeveloped Property or Exempt Property and shall be subject to Special Taxes in accordance with the Rate and Method.

(i) "Developed Property" means all Assessor's Parcels of Taxable Property for which Building Permits were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.

(ii) "Undeveloped Property" means all Assessors Parcels of Taxable Property that are not Developed Property.

(iii) "Taxable Property" means all Assessor's Parcels that are not Exempt Property (as defined below) pursuant to the Rate and Method.

- (iv) "Exempt Property" is defined to include the following:
  - (a) Assessor's Parcels owned by the State, federal or other local governments;
  - (b) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization;
  - (c) Assessor's Parcels used exclusively by a homeowners' association;
  - (d) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement;

- (e) Assessor's Parcels developed or expected to be developed exclusively for non-residential use, including any use directly servicing any non-residential property, such as parking, as reasonably determined by the Board; and
- (f) Any other Assessor's Parcels at the reasonable discretion of the Board.

*Maximum Annual Special Tax.* The Maximum Annual Special Tax is defined in the Rate and Method as follows:

(i) Undeveloped Property: The amount determined by the application of the Assigned Annual Special Tax. The Initial Assigned Annual Special Tax for Undeveloped Property for Fiscal Year 2005-06 shall be \$11,255.08 per acre of Undeveloped Property. The Assigned Annual Special Tax applicable to Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

(ii) Developed Property: The amount determined by the *greater* of (i) the application of the Assigned Annual Special Tax for Zone 1 or (ii) the application of the Backup Annual Special Tax for Zone 1.

The Initial Assigned Annual Special Tax for Developed Property within Zone 1 in Fiscal Year 2005-06 ranges from \$1,630.84 to \$1,864.66 per Unit. The Assigned Annual Special Tax shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year. See APPENDIX B – “First Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of the Hemet Unified School District – Table 1” therein for a listing of the Assigned Annual Special Tax rates for various sizes of Units.

The Backup Annual Special Tax is calculated based on the number of Lots created by each Final Map recorded in the Community Facilities District (see “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Property Ownership and Development”). Because all Lots have not been created by a Final Map within the Community Facilities District, the Backup Annual Special Tax for an Assessor's Parcel of Developed Property for any Fiscal Year cannot be determined for all Lots. Based on the estimated number of Lots, the Backup Annual Special Tax for an Assessor's Parcel of Developed Property for Fiscal Year 2005-06 for the estimated 151 parcels is estimated to be \$1,787.40 per Lot.

*Method of Apportionment.* The Rate and Method provides that commencing Fiscal Year 2005-06 and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes in Zone 1 of the Community Facilities District as follows:

Step One: The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property within Zone 1 in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.

Step Two: If the sum of the amounts collected in Step One is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall levy Proportionately an Annual Special Tax on each Assessor's Parcel of Undeveloped Property within Zone 1, up to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.

Step Three: If the sum of the amounts collected in Steps One and Two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property within Zone 1, up to the Maximum Annual Special Tax applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.

Notwithstanding the foregoing, under no circumstances will the Special Taxes levied against any Assessor's Parcel for which an occupancy permit for private residential use has been issued be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel.

*Prepayment of Annual Special Taxes.* The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full, provided that there are no delinquent Special Taxes, penalties or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined, based on Present Value of Taxes, Reserve Fund Credit and other costs, all as specified in APPENDIX B – "First Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of the Hemet Unified School District – Section H" therein.

### **Proceeds of Foreclosure Sales**

With respect to property within Zone 1 of the Community Facilities District, and 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. Under the provisions of the Act, such judicial foreclosure action is not mandatory.

Under the Fiscal Agent Agreement, on or about March 1 and July 1 of each Fiscal Year, the Community Facilities District will compare the amount of Special Taxes theretofore levied in Zone 1 of the Community Facilities District to the amount of Special Taxes theretofore received by the Community Facilities District and proceed as follows:

*Individual Delinquencies.* If the Community Facilities District determines that (i) any single parcel is subject to a Special Tax delinquency in the aggregate amount of \$5,000 or more or (ii) any owner owns one or more parcels subject to a Special Tax delinquency in an aggregate amount of \$5,000 or more, then the Community Facilities District shall send or cause to be sent a notice of delinquency (and a demand for immediate payment) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the Community Facilities District within 90 days of such determination to the extent permissible under applicable law.

*Aggregate Delinquencies.* If the Community Facilities District determines that the total amount of delinquent Special Taxes for the prior Fiscal Year for Zone 1 of the Community Facilities District (including the total individual delinquencies described above) exceeds 5% of the total Special Taxes due and payable for the prior Fiscal Year, the Community Facilities District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land within Zone 1 of the Community Facilities District with a Special Tax delinquency.

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 Bonds Outstanding.

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

If the Reserve Fund is depleted and delinquencies in the payment of Special Taxes exist, there could be a default or delay in payments to the Bondowners pending prosecution of foreclosure proceedings and receipt by the Community Facilities District of foreclosure sale proceeds, if any. However, within the limits of the Rate and Method and the Act, the Community Facilities District may adjust the Special Taxes levied on all property within the Community Facilities District in future Fiscal Years to provide an amount, taking into account such delinquencies, required to pay debt service on the 2004 Bonds and to replenish the Reserve Fund. There is, however, no assurance that the maximum Special Tax rates will be at all times sufficient to pay the amounts required to be paid on the 2004 Bonds by the Fiscal Agent Agreement.

### **Special Tax Fund**

Pursuant to the Fiscal Agent Agreement, the Special Taxes and other amounts constituting Gross Taxes collected by the Community Facilities District at any time (exclusive of (i) Prepaid Special Taxes received which shall be deposited into the Prepayment Account of the Special Tax Fund, and (ii) Special Taxes relating to property with respect to which a draw has been made on the Letter of Credit or Cash Deposit, which shall be deposited into the Letter of Credit Fund to be used to reimburse the Letter of Credit Bank and/or the Developer, as the case may be), shall be transferred no later than 10 days after receipt thereof to the Fiscal Agent and shall be held in trust in the Special Tax Fund (exclusive of the Administrative Expense Requirement) for the benefit of the Bondowners and shall, exclusive of the Prepaid Special Taxes held in the Prepayment Account, be transferred or applied to the funds and accounts set forth below, in the priority set forth below and at the times and in the amounts and in accordance with paragraph (h) below and the terms of the Fiscal Agent Agreement, as follows:

(a) To the Administrative Expense Fund, the amount necessary to bring the balance to the Administrative Expense Requirement up to a maximum of \$30,000 per Fiscal Year (which shall increase 2% per Fiscal Year commencing 2005-2006).

(b) To the Interest Account of the Bond Fund an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date (taking into account amounts on deposit in the Capitalized Interest Subaccount) shall be equal to the installment of interest due on the Bonds on such Interest Payment Date. Monies in the Interest Account shall be used for the payment of interest on the Bonds as the same become due.

(c) To the Principal Account of the Bond Fund, an amount up to the amount needed to make the principal payment due on the Bonds during the current Bond Year.

(d) To the Sinking Fund Redemption Account of the Redemption Fund an amount up to the amount needed to make the Mandatory Sinking Payments due on the Bonds during the current Bond Year.

(e) To the Reserve Fund, the amount, if any, necessary to replenish the Reserve Fund to the Reserve Requirement.

(f) Provided all the amounts due in the current Bond Year are funded under (b), (c), (d) and (e) above, to the extent the Administrative Expense Requirement deposited under (a) above is not sufficient to pay the Administrative Expenses until collection of Special Taxes in the next Fiscal Year, to Administrative Expense Fund in the amount required to bring the balance therein to pay such expenses.

(g) Any remaining Special Taxes and other amounts constituting Gross Taxes shall remain in the Special Tax Fund subject to the provisions of (h), below.

(h) Any remaining Special Taxes and other amounts constituting Gross Taxes, if any, shall remain in the Special Tax Fund until the end of the Bond Year. At the end of the Bond Year any

remaining funds in the Special Tax Fund, which are not required to cure a delinquency in the payment of principal and interest on the Bonds (including payment of Mandatory Sinking Fund Payments due during the current Bond Year), to restore the Reserve Fund as provided for in (e), above, or to pay current or pending Administrative Expenses as provided for in (a) and (f), above, shall be deposited in the Surplus School Facilities Fund and used in accordance with the terms of the Fiscal Agent Agreement and shall be free and clear of any lien thereon or pledge hereunder; *provided*, any funds which are required to cure any delinquency described above shall be retained in the Special Tax Fund and expended or transferred, at the earliest possible date, for such purpose.

At the date of the redemption, defeasance or maturity of the last 2004 Bond and after all principal and interest then due on any 2004 Bond has been paid or provided for, all other covenants are complied with and all fees and expenses of the Fiscal Agent have been paid, moneys in the Special Tax Fund will be transferred to the Community Facilities District by the Fiscal Agent and may be used by the Community Facilities District for any lawful purpose.

*Prepayment Account of the Special Tax Fund.* Prepaid Special Taxes collected by the Community Facilities District (net of any costs of collection) shall be transferred, no later than 10 days after receipt thereof, to the Fiscal Agent and the Community Facilities District shall direct the Fiscal Agent to deposit the Prepaid Special Taxes in the Prepayment Account of the Special Tax Fund. The Prepaid Special Taxes shall be held in trust in the Prepayment Account for the benefit of the 2004 Bonds and shall be transferred by the Fiscal Agent to the Mandatory Redemption Account of the Redemption Fund to call 2004 Bonds on the next Interest Payment Date for which notice can be given in accordance with the special mandatory redemption provisions of the Fiscal Agent Agreement. The Prepaid Special Taxes shall be transferred to the Mandatory Redemption Account and applied to call 2004 Bonds on a pro rata basis pursuant to the Fiscal Agent Agreement. Following any such prepayment, the Special Taxes for the next Fiscal Year shall be as provided for in the Rate and Method. Investment earnings on amounts in the Prepayment Account not needed to redeem the 2004 Bonds pursuant to special mandatory redemption provisions of the Fiscal Agent Agreement shall be transferred to the Special Tax Fund by the Fiscal Agent at the time of transfer of the Prepaid Special Taxes to the Redemption Fund.

*Investment.* Moneys in each Account in the Special Tax Fund will be invested and deposited by the Community Facilities District as described in "Investment of Moneys in Funds" below. Interest earnings and profits resulting from such investment and deposit will be retained in the applicable Account in the Special Tax Fund to be used for the purposes thereof.

## **Bond Fund**

The Fiscal Agent will hold the Bond Fund in trust for the benefit of the Bondowners. Within the Bond Fund the Fiscal Agent will create and hold an Interest Account and a Principal Account. (The Fiscal Agent will also create and hold the Capitalized Interest Subaccount of the Interest Account of the Bond Fund, into which the portion of Bond proceeds representing capitalized interest will be deposited.)

One Business Day prior to each Interest Payment Date, the Fiscal Agent shall withdraw from the Special Tax Fund, Letter of Credit Fund (if applicable) or the Reserve Fund (if applicable) in the event that sufficient monies are unavailable in the Special Tax Fund or the Letter of Credit Fund (if applicable), and deposit in the Principal Account and the Interest Account of the Bond Fund an amount equal to all of the principal and all of the interest due and payable on 2004 Bonds on the ensuing Interest Payment Date, less amounts on hand in the Bond Fund (including funds available in the Capitalized Interest Subaccount) available to pay principal and/or interest on such 2004 Bonds. Notwithstanding the foregoing, amounts in the Bond Fund resulting from transfers from the Construction Fund shall be used to pay the principal of and interest on such 2004 Bonds prior to the use of any other amounts in the Bond Fund for such purpose. The Fiscal Agent shall apply monies in the Interest Account and Principal Account to the payment of interest and principal, respectively, on the 2004 Bonds on each Interest Payment Date.

*Capitalized Interest Subaccount.* Within the Interest Account of the Bond Fund, there is established a Capitalized Interest Subaccount. Moneys in the Capitalized Interest Subaccount are used to pay interest due on the Bonds on March 1, 2005, with any remaining moneys to be used to pay interest on the next succeeding interest payment dates until such funds are exhausted.



## Reserve Fund

In order to further secure the payment of principal of and interest on the 2004 Bonds, certain proceeds of the 2004 Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see “ESTIMATED SOURCES AND USES OF FUNDS” herein). Reserve Requirement is defined in the Fiscal Agent Agreement to mean with respect to the 2004 Bonds as an amount, as of any date of calculation, equal to the least of (i) 10% of the original principal amount of the 2004 Bonds, less original issue discount, if any, plus original issue premium, if any, (ii) Maximum Annual Debt Service of the 2004 Bonds, and (iii) 125% of average Annual Debt Service on the 2004 Bonds. Exclusive of the interest earnings, the moneys in the Reserve Fund will only be used for payment of principal of, interest and any redemption premium on the 2004 Bonds.

A draw on the Reserve Fund could occur as a result of Special Tax delinquencies. However, the Special Tax levy on Undeveloped Property, or on Developed Property whose Maximum Special Tax is the Backup Annual Special Tax, can be increased in order to replenish the Reserve Fund only if and to the extent that amounts were withdrawn from the Reserve Fund as a result of delinquencies in which such Undeveloped Property or Developed Property is located. See “SECURITY FOR THE 2004 BONDS – Rate and Method.”

If Special Taxes are prepaid and 2004 Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund will be applied to the redemption of the 2004 Bonds.

Except with respect to certain investment earnings, moneys in the Reserve Fund shall be used solely for the purpose of (i) making transfers to the Bond Fund or Redemption Fund to pay the principal of, including Mandatory Sinking Payments, and interest and principal on Bonds when due to the extent that moneys in the Interest Account and the Principal Account of the Bond Fund or moneys in the Sinking Fund Redemption Account, including any funds drawn from the Letter of Credit Fund, are insufficient therefor; (ii) making any required transfer to the Rebate Fund upon written direction from the Community Facilities District, (iii) making any transfers to the Bond Fund or Redemption Fund in connection with prepayments of the Special Taxes; (iv) paying the principal and interest due on Bonds in the final Bond Year, and (v) application to the defeasance of such Bonds in accordance with the Fiscal Agent Agreement.

Moneys in the Reserve Fund will be invested and deposited as described in “Investment of Moneys in Funds” below. Moneys in the Reserve Fund in excess of the Reserve Requirement (exclusive of Excess Investment Earnings identified in writing by the Community Facilities District) shall be withdrawn on each March 1 and applied as follows: (i) until time as the Construction Fund is closed, all investment earnings on amounts in the Reserve Fund (exclusive of Excess Investment Earnings identified in writing by the Community Facilities District and moneys needed to restore the Reserve Fund to the Reserve Requirement) shall be deposited to the School Facilities Account of the Construction Fund, *provided*, in the event Special Taxes are projected to be levied on Zone 1 Undeveloped Property for the next Special Tax levy, the District shall give written instructions to the Fiscal Agent to transfer such interest earnings first to the Interest Account of the Bond Fund, and any remaining excess shall be transferred to the Principal Account of the Bond Fund or to the Sinking Fund Redemption Account of the Redemption Fund to the extent required to make any principal payment or Mandatory Sinking Payments on the next following September 1; (ii) after the expiration of the transfers under (i) all investment earnings on amounts in the Reserve Fund since the previous Interest Payment Date (exclusive of Excess Investment Earnings identified in writing by the Community Facilities District and moneys need to restore the Reserve Fund to the Reserve Requirement) shall be transferred to the Interest Account of the Bond Fund and any remaining excess shall be transferred to the Principal Account of the Bond Fund or to the Sinking Fund Redemption Account of the Redemption Fund to the extent required to make any principal payment or Mandatory Sinking Payments on the next following Interest Payment Date. The Fiscal Agent shall transfer Excess Investment Earnings from Reserve Fund earnings upon written direction of the Community Facilities District.

The Reserve Requirement, or any portion thereof, may be satisfied by crediting to the Reserve Fund moneys, a letter of credit, a surety policy, or any other comparable credit facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement as provided in the Fiscal Agent Agreement.

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

### **Administrative Expense Fund**

The Fiscal Agent will receive the transfer of Special Taxes from the Community Facilities District from the Special Tax Fund and deposit in the Administrative Expense Fund amounts to pay Administrative Expenses as described above in "SECURITY FOR THE 2004 BONDS – Special Tax Fund."

**Pursuant to the Fiscal Agent Agreement, moneys in the Administrative Expense Fund will not be construed as a trust fund held for the benefit of the Owners of the 2004 Bonds and will not be available for the payment of debt service on the 2004 Bonds.**

### **Surplus School Facilities Fund**

Moneys in the Surplus School Facilities Fund may be used by the District for acquisition and/or construction of the Project school facilities; to make deposits to the Rebate Fund under the Fiscal Agent Agreement for the purposes of paying rebatable arbitrage as and when such is due in accordance with the Tax Certificate for the 2004 Bonds and the Regulations; or, at the option of the Community Facilities District, for the optional redemption of any of the 2004 Bonds under the Fiscal Agent Agreement. The Surplus School Facilities Fund shall be funded from surplus special taxes transferred to the Surplus School Facilities Fund from the Special Tax Fund in accordance with the terms of the Fiscal Agent Agreement.

**Pursuant to the Fiscal Agent Agreement, moneys in the Surplus School Facilities Fund will not be construed as a trust fund held for the benefit of the Owners of the 2004 Bonds and will not be available for the payment of debt service on the 2004 Bonds.**

### **Investment of Moneys in Funds**

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent will be invested by the Fiscal Agent in Authorized Investments (as defined below or in the Fiscal Agent Agreement), as directed by an Authorized Officer, that mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. Moneys in the Reserve Fund may be invested in Authorized Investments which provide liquidity needed to satisfy any calls on funds in the Reserve Fund. Such liquidity shall provide that at least one half of the moneys in the Reserve Fund shall be available for draw in advance of any Interest Payment Date, except in the case of guaranteed investment contracts which may have a longer term. Such Authorized Investments shall not have a final maturity of greater than three years (except guaranteed investment contracts purchased with moneys in the Reserve Fund may be invested for a longer period). In the absence of any direction from an Authorized Officer, the Fiscal Agent will invest, to the extent reasonably practicable, any such moneys in a taxable or tax exempt government money market portfolio mutual fund as described in clause (j) of the definition of Authorized Investments (including funds for which the Fiscal Agent or its affiliates or subsidiaries provide investment advisory or other management services). See APPENDIX D – "Summary of Fiscal Agent Agreement" for a definition of "Authorized Investments."

### **Payment of Rebate Obligation**

The Community Facilities District is required to calculate excess investment earnings in accordance with the requirements set forth in the Fiscal Agent Agreement. If necessary, the Community Facilities District may use amounts in the Reserve Fund, amounts on deposit in the Surplus School Facilities Fund and other funds available to the Community Facilities to satisfy rebate obligations.

### **Cash Deposit; Letter of Credit**

As a condition precedent to issuance of the 2004 Bonds and prior to the Delivery Date, the Community Facilities District shall cause the Developer to provide a Letter(s) of Credit, or cash deposit(s) ("Cash Deposit"), as the case may be, in the Stated Amount naming the Fiscal Agent as beneficiary. The Letter(s) of Credit or Cash Deposit(s) shall secure payment of Special Taxes levied within Zone 1 property owned by the Developer.

The Letter(s) of Credit or Cash Deposit(s) shall be in effect in each Fiscal Year that individual homeowners are record owners of less than 55% of the residential lots within Zone 1 of the Community Facilities District. On or before each June 1, commencing June 1, 2005, the Community Facilities District

shall determine the number of residential lots owned by individual homeowners in Zone 1 of the Community Facilities District. If fewer than 55% of the residential lots are owned by individual homeowners, the Community Facilities District shall certify to the Fiscal Agent: (A) the number of such residential lots owned by individual homeowners and (B) the Stated Amount of the Letter of Credit or Cash Deposit required to be in effect during the next succeeding Fiscal Year (commencing on the next following August 1). If the Community Facilities District determines at any time that 55% or more of the residential lots within Zone 1 of the Community Facilities District are owned by individual homeowners, then it shall so certify in writing to the Fiscal Agent and direct the Fiscal Agent to release the Letter of Credit or Cash Deposit to the Letter of Credit Bank or Developer, as the case may be. See APPENDIX D – “Summary of Fiscal Agent Agreement – Issuance of the 2004 Special Tax Bonds – Funds and Accounts – Letter of Credit Fund.”

*Draws Prior to an Interest Payment Date.* Five Business Days prior to each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Special Tax Fund, after deducting Administrative Expenses authorized to be transferred, or the Bond Fund on that Interest Payment Date, will be sufficient to pay principal of and interest on the 2004 Bonds that will be due and payable on such Interest Payment Date and shall notify the Community Facilities District of any deficiency. If amounts in the Special Tax Fund or the Bond Fund will be insufficient to pay principal of and interest on the 2004 Bonds, the Fiscal Agent shall immediately notify the Community Facilities District in writing of such deficiency, and if such insufficiency is attributable to Developer's delinquency in the payment of Special Taxes for Zone 1 property within the Community Facilities District as determined by the Community Facilities District, upon the written direction of an Authorized Representative (and prior to any withdrawals from the Reserve Fund), the Fiscal Agent shall draw upon the Letter of Credit or Cash Deposit, as the case may be; provided, however, that the amount of such draw (as set forth in said written direction of the Authorized Representative) shall be no greater than the amount of the delinquent Special Taxes levied on such Zone 1 property

The Fiscal Agent shall deposit the proceeds of any such draw upon the Letter of Credit or Cash Deposit into the Letter of Credit Fund, one Business Day prior to the Interest Payment Date, and prior to any transfers from the Reserve Fund, transfer such amounts from the Letter of Credit Fund to the Bond Fund.

The Community Facilities District shall have no obligation to reimburse the Letter of Credit Bank(s) for any such draw on any Letter of Credit, or the Developer for the Cash Deposit, except from: (i) any proceeds of the draw on the corresponding Letter of Credit and any interest earnings thereon not required to pay debt service on the Bonds on such Interest Payment Date; and (ii) delinquent Special Taxes subsequently received by the Community Facilities District with respect to such property within the Community Facilities District.

*Draws Prior to Termination of the Letter of Credit.* In the event the Fiscal Agent draws upon a Letter of Credit or Cash Deposit, as the case may be, the Fiscal Agent shall immediately deposit the proceeds of such draw into the Letter of Credit Fund and, pending any transfer to the Bond Fund for the purposes described in “*Draws Prior to an Interest Payment Date*” above, such proceeds shall be invested and reinvested by the Fiscal Agent in Authorized Investments at the written instruction of an Authorized Representative. At no time shall the proceeds of a draw on any Letter of Credit or Cash Deposit, as the case may be, held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund.

*Earnings on Cash Deposit.* In the event the Developer provides a Cash Deposit in lieu of a Letter of Credit, such monies shall be deposited into the Letter of Credit Fund and invested by the Fiscal Agent at the direction of the Community Facilities District in Authorized Investments at a rate not in excess of the Yield on the Bonds. On or after March 2 and September 2 of each year, commencing September 2, 2005, any earnings on monies held in the Letter of Credit Fund in excess of the Stated Amount shall, upon the written request of Developer confirmed in writing by the Community Facilities District, be mailed by the Fiscal Agent by check to Developer provided that (i) such earnings are not required to pay principal or interest on the Bonds on the following Interest Payment Date as a result of delinquencies in the payment of Special Taxes by the Developer and (ii) the Community Facilities District confirms that the Developer is not delinquent on Special Taxes then payable. See APPENDIX D – “Summary of Fiscal Agent Agreement – Issuance of the 2004 Special Tax Bonds – Funds and Accounts – Letter of Credit Fund.”

*Final Release of Moneys from the Letter of Credit Fund.* If at any time an Authorized Representative provides written certification to the Fiscal Agent that (i) 55% or more of the residential lots within the Community Facilities District for which a Letter of Credit or Cash Deposit has been posted are owned by individual homeowners, (ii) such monies are not required to pay principal or interest on

the 2004 Bonds on the following Interest Payment Date as a result of delinquencies in the payment of Special Taxes by the Developer, and (iii) Developer is not delinquent on Special Taxes then payable, then the Fiscal Agent shall immediately return all (or such portion of the) amounts on deposit in the Letter of Credit Fund to Developer or Letter of Credit Bank, as the case may be.

### **Compliance with Cash Deposit/Letter of Credit Requirements**

The following describes how the Developer intends to comply with the requirement to provide a Letter of Credit or Cash Deposit.

Hemet/San Jacinto Ventures, LLC. Hemet/San Jacinto Ventures, LLC has provided a Cash Deposit in the Stated Amount of \$248,142.56 in lieu of a Letter of Credit in connection with the issuance of the 2004 Series Bonds.

The Developer may replace its above referenced Cash Deposit with a Letter of Credit.

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

The Community Facilities District shall not issue any additional bonds, notes or other similar evidences of indebtedness payable, in whole or in part, out of Net Taxes except: (i) bonds issued to fully or partially refund the Outstanding Bonds; or (ii) subordinate bonds, notes or other similar evidences of indebtedness.

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

The County has adopted a Teeter Plan as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. However, by policy, the County does not include assessments, reassessments and special taxes in its Teeter program. **The Special Taxes are not included in the County's Teeter Program.**

## **COMMUNITY FACILITIES DISTRICT NO. 2004-1**

### **General Information**

The Community Facilities District is located in the central area of west-Riverside County (the "County") in the City of Hemet, 65 miles southeast of Los Angeles, 75 miles northeast of San Diego, 35 miles southeast of Riverside and 45 miles from Palm Springs. The first phase of development within the Community Facilities District designated "Zone 1" encompasses approximately 38.20 gross acres. The Taxable Property within Zone 1 is expected to be developed into 151 detached residential units.

The property within Zone 1 is owned by Hemet/San Jacinto Ventures, LLC, a Delaware limited liability company (the "Hemet/San Jacinto Ventures, LLC" or the "Developer"), formed by Geobilt Homes, Inc., a California corporation, and Troxler Residential Ventures XI, LLC, a Delaware limited liability company. Geobilt Homes, Inc. has been designated by Hemet/San Jacinto Ventures, LLC as Project Manager to be responsible for management of the development. George R. Meeker, Jr. is President of Geobilt Homes, Inc.

*Utilities and Municipal Services.* All utilities and municipal services with sufficient capacity to serve the property within Zone 1 are currently available or being constructed to such property. All utilities and municipal services required to support the Development will be provided by the following companies/agencies:

Electricity:	Southern California Edison Company
Natural Gas:	Southern California Gas Company
Telephone:	Verizon
Cable:	Adelphia Communications
Fire:	Riverside County
Police:	City of Perris
Solid Waste:	City of Hemet Integrated Waste Management Div.
Water:	Eastern Municipal Water District/Lake Hemet Municipal Water
Sewer:	Eastern Municipal Water District/Lake Hemet Municipal Water
Storm Water:	Riverside County Flood Control District

**Authority for Issuance**

The 2004 Bonds are issued pursuant to the Act, the Bond Resolution and the Fiscal Agent Agreement. In addition, as required by the Act, the Board of the School District has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the 2004 Bonds:

*Resolution of Intention.* On April 15, 2004, the Board adopted Resolution No. 1254 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 for the Community Facilities District. On the same day the Board adopted Resolution No. 1255 stating its intention to incur bonded indebtedness in an amount not to exceed \$250,000,000 with respect to the Community Facilities District. The Community Facilities District will finance school, water and sewer improvements. See “FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS” herein.

*Change Resolution.* On September 21, 2004, prior to conducting a public hearing, the Board adopted Resolution No. 1344 (the “Change Resolution”), which proposed a change in the Rate and Method prior to its approval at the formation election held on September 21, 2004.

*Resolution of Formation.* Immediately following a noticed public hearing on September 21, 2004, the Board adopted Resolution No. 1345 (the “Resolution of Formation”), which established the Community Facilities District and authorized the levy of a special tax within the Community Facilities District pursuant to the Rate and Method.

*Resolution of Necessity.* On September 21, 2004, the Board adopted Resolution No. 1346 declaring the necessity to incur bonded indebtedness in an amount not to exceed \$250,000,000 within the Community Facilities District and submitting the proposition to the qualified electors of the Community Facilities District.

*Landowner Election and Declaration of Results.* On September 21, 2004, an election was held within the Community Facilities District in which the Developer, as the landowner eligible to vote, being the qualified electors, approved the applicable ballot propositions authorizing the issuance of up to \$250,000,000 in bonds to finance the acquisition and construction of the school, water and sewer improvements. The propositions approved the levy of a special tax in accordance with the Rate and Method and the establishment of an appropriations limit for the Community Facilities District.

On September 21, 2004, the Board adopted Resolution No. 1347 pursuant to which the Board approved the canvass of the votes and declared the Community Facilities District to be fully formed with the authority to levy the Special Taxes in accordance with the Rate and Method, to incur the bonded indebtedness and to have the established appropriations limit.

*Special Tax Lien and Levy:* The Notice of Special Tax Lien for the Community Facilities District was recorded in the real property records of Riverside County on September 28, 2004, as Instrument No. 2004-0772799.

*Ordinance Levying Special Taxes:* On October 5, 2004, the Board adopted Ordinance No. CFD-01 levying the Special Tax within the Community Facilities District.

*Resolution Authorizing Issuance of the 2004 Bonds:* On November 16, 2004, the Board adopted Resolution No. 1363 approving issuance of the 2004 Bonds to be paid from the Zone 1 Special Taxes.

### **Delinquency History**

Fiscal Year 2005-06 will be the first year in which Special Taxes are levied in the Community Facilities District. As of June 1, 2004, no *ad valorem* taxes are delinquent in the Community Facilities District.

### **Zoning; Environmental Review**

The existing vacant land comprising Zone 1 is currently zoned R-1-7.2 per the City of Hemet Planning Department. The R-1 development standards are as follows:

- Minimum parcel size 7,200 square feet
- Setbacks required
  - Front 20 feet
  - Side (each) Five feet for each story
  - Rear 15 feet
- Maximum height limit 35 feet

Tract No. 28558 recorded on August 21, 2003, Document No. 41663. Tentative Tract Map No. 31295 was approved on November 18, 2003. The conditionally approved tentative map will expire two years after the approval date, or by November 18, 2005.

*Environmental Review.* An Initial Study was prepared for each Tentative Tract Map comprising Zone 1 and the Planning Commission of the City of Hemet considered the information contained in the respective Environmental Assessments (Mitigated Negative Declaration) in compliance with the California Environmental Quality Act (CEQA) guidelines, including the Initial Study and comments received during the 20-day public review period, and has found that the project will not significantly impact the environment.

*Flood Zone.* The Property is located within Zone X flood zone (areas determined to be outside the 500-year flood plain) according to FEMA Flood Map, and Zone A, no base flood elevation determined, Community Panel Number 060253 0005D, dated August 19, 1998. The City of Hemet requires projects to be conditioned to elevate the pads two feet above the curb face. In addition, "all local runoff must be conveyed in a manner consistent with Resolution No. 2108."

*Hazardous Substance Assessment.* In connection with the processing of the Tract Maps, a Phase I Environmental Site Assessments was conducted by Western Environmental Engineers Co. (WEECO), Santa Ana, California to determine if the potential for contamination exists at the site. Based on the information reviewed and cited in the reports, the following is indicated:

- No public records such as building permits and hazardous material inventory disclosure were found;
- The visual inspection of the subject site revealed no visible signs of hazardous material spills or contamination on the surface of the property and there was no evidence of storage of any industrial chemicals at the subject site;
- No records of hazardous waste spills/leaks or violations were found for the subject property from the searches of the files in the City of Hemet Building & Safety Department and the County of Riverside Department of Environmental Health;

- The visual inspection of the site revealed that there was no evidence of any fill pipes, concrete scaring or vent pipes to indicate the present existence of underground storage tanks on the site and no aboveground storage tanks were observed at the site at the time of investigation; and
- From the records researched at the County of Riverside Department of Environmental Health, there was no evidence to suggest the past or present existence of underground storage tanks on the site.

Based on this Phase I Environmental Site Assessment and from review of all publicly available records regarding the site, WEECO has concluded that no further environmental investigations or site remediation of the site is considered necessary at the time of the report.

*Biological Surveys.* There have been no endangered species, including flora, fauna or habitats identified on or near the Property.

*Earthquake; Seismic Zone.* The Property is not located within a State of California Alquist Priolo Fault Rupture Hazard Zone and is not located within a seismic Special Study Zone. The nearest faults are the San Jacinto-Anza Fault located 3 miles from the site and the San Jacinto-San Jacinto Valley Fault located 1.5 miles from the site.

*Archaeological Resources.* As required by applicable approvals, development within the Community Facilities District must comply with applicable mitigation measures in order to mitigate impacts to known archaeological resources. Development must avoid damaging effects on archaeological resources. Thus if previously unknown archaeological resources are discovered during the construction process, additional mitigation measures may be required to be implemented as recommended by a qualified archaeologist.

## **Property Ownership and Development**

*The information about the Developer within Zone 1 of the Community Facilities District contained in this Official Statement has been provided by the Developer and has not been independently confirmed or verified by either the Underwriter or the Community Facilities District. Such information is included because it may be relevant to an informed evaluation of the security for the 2004 Bonds. However, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described below. No representation is made herein as to the accuracy or adequacy of such information, as to the experience, abilities or financial resources of the Developer or any other landowner, or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.*

*The Developer is not personally liable for payment of the Special Taxes or the 2004 Bonds, and the following information should not be construed to suggest that the Special Taxes or the 2004 Bonds are personal obligations or indebtedness of the Developer or any other landowners in the Community Facilities District.*

The property within Zone 1 consists of Tract No. 28558 and Tentative Tract No. 31295 (the "Property") and is owned by Hemet/San Jacinto Ventures, LLC, a Delaware limited liability company (the "Hemet/San Jacinto Ventures, LLC" or the "Developer"), which was formed on May 1, 2003 by Geobilt Homes, Inc., a California corporation, and Troxler Residential Ventures XI, LLC, a Delaware limited liability company. Hemet/San Jacinto Ventures, LLC was formed to hold title to the Property and acquired title to Tract No. 28558 on May 19, 2003 and acquired title to Tract No. 31295 on August 18, 2003. Geobilt Homes, Inc. has been designated by the Hemet/San Jacinto Ventures, LLC as Project Manager to be responsible for management of the development of the Property. George R. Meeker, Jr. is President of Geobilt Homes, Inc.

The Property is planned for development of 151 residential lots on which dwelling units (the "Homes") will be constructed (the "Project"). The Project will be known as Menlo Estates. A final map has been recorded on Tract No. 28558 for 78 residential lots; two lots, exempt from Special Taxes, will be used for a drainage basin with the remaining 76 residential lots planned for development. Lots range in size from 7,120 square feet to 13,889 square feet, with an average size of 7,726 square feet.

A Tentative Tract Map was conditionally approved on Tentative Tract No. 31295 on November 18, 2003 for 75 residential lots; recording of the final map is expected in February 2005. Lots range in size from 7,200 square feet to 10,404 square feet, with an average size of 7,649 square feet. Three model homes have been completed in Tract No. 28558 and 20 production dwellings are under construction; the remaining 53 lots within Tract No. 28558 are in near-finished condition. Tentative Tract No. 31295, proposed for 75 dwelling units, is in a raw site condition.

Hemet/San Jacinto Ventures, LLC and TVP Asset Inc., a California corporation (the “Asset Manager”), have entered into the Asset Management Agreement (Hemet/San Jacinto), on May 19, 2003, pursuant to which the Asset Manager will be responsible for overseeing the day-to-day management of the Property and the Project. The Asset Manager is an affiliate of Troxler Residential Ventures XI, LLC. Hemet/San Jacinto Ventures, LLC and Geobilt Homes, Inc. have also entered into the Development, Management and Sales Agreement, dated May 19, 2003, providing for Geobilt Homes, Inc. to (a) act as manager for the development and construction of certain on-site improvements and homes (the “Improvements”), (b) upon completion of construction, supervise the Sales Broker (as defined in the Development, Management and Sales Agreement) in the sale of the Homes and (c) manage the Project until completion of the sale of the Homes. Geobilt Homes, Inc. and its affiliate Meeker Companies, Inc., or its principals, have been active in the development of several communities in southern California.

Hemet/San Jacinto Ventures, LLC has no obligations with respect to the development of the parcels, although while it is the owner of the parcels, it is liable for the payment of Special Taxes. Hemet/San Jacinto Ventures, LLC is a single purpose entity created for investment purposes by Geobilt Homes, Inc. and has no assets other than the parcels comprising the Property. See COMMUNITIES DISTRICT NO. 2004-1 - Property Ownership and Development - *Development Experience* below.

*Description of Project.* The Menlo Estates Project, together with the proposed unit sizes, unit distribution and current base sales prices of the proposed homes as indicated by the Developer, are as follows:

<b>Project Name</b>	<b>Home Size (SF)</b>	<b>Stories</b>	<b>No. Units</b>	<b>10/15/04 Base Sales Price</b>	<b>Base Price Per SF</b>
Plan 1	1,896	1	16	\$300,000.00	\$152.95
Plan 2	2,377	2	40	315,000.00	\$128.31
Plan 3	2,555	2	55	325,000.00	\$123.28
Plan 4	2,639	2	40	332,000.00	\$121.25

Based on the above distribution of floor plans, the average size home is 2,367 square feet. The Menlo Estates development will be built on 7,200 minimum lot sizes. The Project has had an active sales program since July 2004. As of October 15, 2004, 59 homes have been released for sale and all homes are reported as reserved. Sales prices have increase approximately five percent (5%) over the three month period. See “APPENDIX C – Appraisal Report dated October 20, 2004.”

*The Facilities.* The proceeds of the Bonds will be used to finance school facilities and water and sewer capacity and connection fees. The Developer, Eastern Municipal Water District (“EMWD”) and the Community Facilities District have entered into a Joint Community Facilities Agreement, dated September 30, 2004 (the “JCFA Agreement”). In addition, the Developer and the School District have entered into a School Facilities Funding and Mitigation Agreement, dated as of September 30, 2004 (the “School Mitigation Agreement”) with respect to the financing of school facilities needed as a result of the development in the Community Facilities District. Pursuant to the JCFA Agreement, proceeds of the Bonds not required to pay mitigation fees for school facilities pursuant to the School Mitigation Agreement will be applied to pay water and sewer capacity and connection fees owed EMWD. Any of the costs of the facilities covered by the JCFA Agreement and the School Mitigation Agreement exceeding the available bond proceeds shall be and remain the responsibility of the Developer.



The following table illustrates the estimated mitigation fees representing facilities to be financed with proceeds of the Bonds:

<u>Mitigation Fees</u>	<u>Estimated Amount</u>
School Mitigation Fees	\$1,947,900
Water and Sewer Capacity and Connection Fees	<u>833,218</u>
<b>TOTAL</b>	<b>\$2,791,118</b>

*Source: The Developer.*

*Status of Permits and Approvals.* The final map for Tract No. 28558 encompassing 78 lots (two lots reserved for drainage facility) recorded on August 21, 2003. The tentative map for Tract No. 31295 encompassing 75 lots was approved in December 2003 and is expected to be recorded in February 2005. The property is being graded and backbone infrastructure improvements, including storm drains, sewer, water, dry utilities and major roadways, for Tract No. 28558 have been installed; the remaining infrastructure improvements for Tract No. 31295 are estimated to begin construction in the first quarter of 2005. In-tract streets for the Tract No. 28558 lots have been completed. In order to complete its development plan, the Developer must complete the interior streets and utilities for Tract No. 31295, which are scheduled to be completed by April 1, 2005. As of October 15, 2004, Hemet/San Jacinto Ventures, LLC has estimated the costs to develop the 151 lots to the stage of finished lots ready to build homes with the foregoing backbone infrastructure to be \$6,990,000, excluding estimated facilities financed with proceeds of the 2004 Bonds.

*Plan of Finance.* As of October 31, 2004, the Developer had expended \$4,940,304 on project costs, including \$2,500,000 for land acquisition, \$2,080,881 for land development and \$359,423 for construction. Hemet/San Jacinto Ventures, LLC has financed the acquisition of the property through capital contributions of its members. The land development cost was derived from a loan from Commercial Bank of California, a California State chartered bank ("Commercial Bank"), and the construction costs were derived from a revolver loan with Commercial Bank. Total loan capacity with Commercial Bank is \$20,000,000. The Developer anticipates financing the remaining costs to complete the Development with a combination of development loans, construction loans, proceeds from the sale of the 2004 Bonds and proceeds from sales of completed homes to homeowners.

*Development Experience.* Meeker Companies, Inc. and its affiliate Geobilt Homes, Inc. are generally responsible for the acquisition, planning, engineering, financing, construction, marketing, sales and management of each of its communities. The President of Meeker Companies, Inc. and Geobilt Homes, Inc., George Meeker, Jr., has been in his present position since inception in 1995. Mr. Meeker has been involved in real estate development since the 1970's. In 2002, Meeker Companies, Inc. closed 70 dwelling units. In 2003, Meeker Companies, Inc. closed 13 dwelling units. Projections for 2004 are 77 dwelling units and for 2005 are 200 dwelling units.

In addition to the development, Meeker Companies, Inc. has been or is currently actively developing properties in the California cities of Temecula, Wildomar and Corona. These developments range in size from approximately 50 homes to approximately 216 homes and have been developed by Meeker Companies, Inc., as either developments for its affiliates or on a fee basis for a national home builder, which assumed development responsibilities once the national home builder opened a division serving the area in which the development was located. Meeker Companies, Inc. has also been involved in the construction of several custom homes in the City of Santa Barbara, in Santa Barbara County, the City of La Cañada in Los Angeles County and in Coto De Caza in Orange County. Meeker Companies, Inc. is in escrow for a development in the City of Riverside.

Meeker Companies, Inc.'s and its affiliates' development experience includes the following projects:

**Table 1  
Hemet Unified School District  
Community Facilities District No. 2004-1  
Development Experience**

<u>Project Name</u>	<u>Location (California)</u>	<u>No. of Units/Lots</u>	<u>Size of Units</u>	<u>Price Range</u>	<u>Status</u>
Menlo Estates	Hemet	151 SFD	1,896-2,639 sq. ft.	\$300,000-\$332,000	In Development
Traditions, Roripaugh Ranch	Temecula	113 SFD	2,385-2,985 sq. ft.	\$440,000-\$550,000	In Development
Rancho Vista I, II	Wildomar	177 SFD	2,470-3,710 sq. ft.	\$440,000-\$500,000	In Development
Palomar Ridge	Wildomar	78 SFD	2,639-3,210 sq. ft.	\$320,000-\$440,000	Completed 2004
La Sierra Grove	Riverside	62 lots	10,000 sq. ft.	\$170,000	Completed 2002
Diamond Ridge	Dana Point	13 SFD	3,223-4,140 sq. ft.	\$750,000-\$1,300,000	Completed 2001
Hidden Creek I Estates	Wildomar	131 SFD	2,412-3,424 sq. ft.	\$200,000-\$240,000	Completed 2001
Village Crest	Corona	30 SFD	2,650-3,060 sq. ft.	\$180,000-\$220,000	Completed 1999
Renaissance	Westlake Village	181 small lot subd'vn	1,390-1,910 sq. ft.	\$220,000-\$250,000	Completed 1998
Sunset Hills	Santa Clarita	162 SFD	1,680-2,370 sq. ft.	\$190,000-\$220,000	Completed 1997

*History of Property Tax Payment; Loan Defaults; Bankruptcy.* Hemet/San Jacinto Ventures, LLC has made the following representations:

- neither Hemet/San Jacinto Ventures, LLC nor, to Hemet/San Jacinto Ventures, LLC's actual knowledge, any of its current Affiliates (as defined in the Developer Continuing Disclosure Agreement, including Geobilt Homes, Inc., Troxler Residential Ventures III, LLC and Meeker Companies, Inc.) have ever defaulted in a material amount or manner in payment of any *ad valorem* property taxes, special assessments or special taxes related to the project or any of their other projects,

- Hemet/San Jacinto Ventures, LLC is not currently in material default on any loans, lines of credit or other obligation related to its development in the Community Facilities District and Meeker Companies, Inc. is not currently in material default on any loans, lines of credit or other obligation related to any of its development projects, including the project in the Community Facilities District,

- neither Hemet/San Jacinto Ventures, LLC nor, to Hemet/San Jacinto Ventures, LLC's actual knowledge, any of its Affiliates has ever filed bankruptcy or been declared bankrupt, and

- there is no litigation of any nature in which Hemet/San Jacinto Ventures, LLC or any of its Affiliates has been served, or to its actual knowledge, pending or threatened, which if successful, would materially adversely affect the ability of Hemet/San Jacinto Ventures, LLC to complete the development and sale of the property currently owed within the Community Facilities District or to pay Community Facilities District special taxes or ad valorem tax obligations when due on its property within the Community Facilities District.

For purposes of this Official Statement the actual knowledge of Hemet/San Jacinto Ventures, LLC shall mean the actual knowledge of George Meeker, Jr., President of Meeker Companies, Inc. and President of Geobilt Homes, Inc.

A complaint was filed on November 11, 2002 and a second complaint was filed on December 18, 2002 in the Superior Court of the State of California by various individuals who purchased homes in Meeker Companies, Inc.'s Hidden Creek Estates I project which complaints name Hidden Creek Estates, I, LLC, a California limited liability company and Meeker Companies, Inc. as defendants. Both cases are construction defect actions related to the Hidden Creek Estates project. The Developer indicates that negotiations for settlement of the complaints are in the final stages and a full settlement is expected shortly. Hemet/San

Jacinto Ventures, LLC does not expect the final settlement to materially adversely affect Meeker Companies, Inc.'s or Hemet/San Jacinto Ventures, LLC's ability to complete development of the property.

The table below sets forth the status of the property.

**Table 2**  
**Hemet Unified School District**  
**Community Facilities District No. 2004-1**  
**Property Ownership and Development Status**  
**As of October 20, 2004**

Name of Developer	Tract No.	No. of Units	No. of Net Acres	Estimated Opening	Status of Development As of October 15, 2004
Hemet/San Jacinto Ventures, LLC	28558	76 sfd units; 7,726 sq. ft. average lot size	19.10	December 2004	Tract No. 28558 recorded for 76 lots; grading in progress; 3 model homes completed. 20 production dwellings are under construction and 53 lots are in a near-finished condition.
Hemet/San Jacinto Ventures, LLC	31295	75 sfd units; 7,649 sq. ft. average lot size	19.10	July 2005	Tract No. 31295 scheduled to record in February 2005; grading began in October, scheduled to be completed in February 2005; streets and utilities scheduled to be completed by April 1, 2005.

*Description of Project.* Hemet/San Jacinto Ventures, LLC's project within the Community Facilities District, Zone 1, together with the estimated lot sizes, estimated unit sizes and estimated sales price range, are set forth below.

Project Name	Typical Lot Size (sq. ft.)	Est. Unit Size	Estimated Base Sales Price Range	Units to be sold
Menlo Estates	7,687 sq. ft.*	1,896-2,639 sq. ft.	\$300,000-\$332,000	151

\*The smallest lot is 7,120 square feet and the largest lot is 13,899 square feet.

*Absorption.* Hemet/San Jacinto Ventures, LLC's first phase of its project is expected to open at the end of the first quarter of 2005, with final sales estimated to occur in the fourth quarter of 2006.

**Appraised Property Values**

An appraisal was prepared that addresses all of the property within the boundaries of the Community Facilities District, Zone 1. This appraisal includes an estimate of the market value of all property subject to the special tax in its "as is" condition and is contingent upon the funding of the Zone 1 facilities comprised of \$2,781,118 of reimbursements for a portion of the completion of Eastern Municipal Water District (EMWD) sewer and water facilities, EMWD fees and Hemet Unified School District (HUSD) improvements. Zone 1, owned by Hemet/San Jacinto Ventures, LLC, contains 38.20 gross acres proposed for development of 151 single family detached units. The Appraisal is based on certain assumptions set forth in Appendix C hereto.

Based on the investigation and analyses described in the Appraisal, and subject to all of the premises, assumptions and limiting conditions set forth therein, the Appraiser estimated the fee simple interest market value of the Taxable Property as of October 15, 2004, to be \$11,100,000. The fee simple interest market value includes the engineering site cost for the development totaling \$6,990,000 or \$46,291 per lot, including the \$2,781,118 of reimbursement to the Developer from the proceeds of the 2004 Bonds. The market value reported in the Appraisal results in an estimated value-to-lien ratio of 3 to 1, calculated with respect to all

direct and overlapping tax and assessment debt as of November 1, 2004. See “Direct and Overlapping Debt” below.

The Appraisal estimated the value of the property in the Community Facilities District, Zone 1, in its current state of development with 76 near-finished lots and 75 future lots in a raw condition. In Tract No. 28558, the 76 near-finished lots have been improved with three completed model homes and 20 production homes that are under construction in framing stage. The remaining 53 lots within Tract No. 28558 are in near-finished lot condition, that is, subdivided lots that have all development entitlements, infrastructure improvements completed, finish grading completed, all in-tract utilities extended to the property line to each lot, most street improvements completed (except sidewalks, street lights and the final lift of street paving to be completed), resource agency permits (if necessary), in accordance with the conditions of approval of the specific tract map. Tract No. 31295, proposed for 75 residential units, is in a raw site condition. As of October 15, 2004, the project known as Menlo Estates, comprising Tract Nos. 28558 and 31295, had released 59 homes for sale and all homes were reported as reserved, with cash deposits. The estimate of value was based on fee simple ownership, subject only to easements of record and the lien of the Special Taxes.

The Appraiser used a sales comparison approach, in which listings and sales of similar residential properties are analyzed in order to derive an indication of the most probable sales price of the property being appraised. The estimate of value for the property in the Community Facilities District, Zone 1, was achieved using the sales price of comparable residential land sales on the basis of finished lots in the area that were listed or had sold within the prior 18 months. See “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Transportation Uniform Mitigation Fee; Multiple Species Habitat Conservation Plan Fee” for a description of a new fee relating to all development within western Riverside County which may affect market values.

*The School District makes no representation as to the accuracy or completeness of the Appraisal. See APPENDIX C hereto for more information relating to the Appraisal.*

### **Concentration of Special Tax Obligation**

As of October 15, 2004, the Developer owns all Taxable Property in the Community Facilities District, Zone 1, and is responsible for all of the Special Taxes. As a result, in determining the investment quality of the 2004 Bonds, Bondowners should assume that a portion of the Special Taxes will be paid by the Developer until such time as the parcels are transferred to individual owners. To date, the Developer has been current in the payment of the County *ad valorem* property taxes. Actual amounts will differ based on the phased purchase of lots from the Developer and sales to home buyers. Interest on the 2004 Bonds is capitalized until September 1, 2005, and the first year in which principal payments will occur is Fiscal Year 2005-06.

### **Direct and Overlapping Debt**

Table 3 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the Community Facilities District prepared by California Municipal Statistics, Inc. and dated as of November 1, 2004 (the “Debt Report”). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The Community Facilities District believes the information is current as of its date but makes no representation as to its completeness or accuracy. Other public agencies, such as the County, may issue additional indebtedness at any time, without the consent or approval of the School District or the Community Facilities District. See “– Overlapping Assessment and Community Facilities Districts” below.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Community Facilities District in whole or in part. Such long term obligations generally are not payable from property taxes, assessment or special taxes on land in the Community Facilities District. In many 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 annual appraisals 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 E hereto for the form of the Community Facilities District Continuing Disclosure Agreements.

**Table 3**  
**Hemet Unified School District**  
**Community Facilities District No. 2004-1**  
**Detailed Direct and Overlapping Debt**

HEMET UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 2004-1 – ZONE 1

2004-05 Local Secured Assessed Valuation: \$2,257,284

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable Debt 11/1/04</u>		
Metropolitan Water District	0.0002%	\$ 895	
Hemet Unified School District	0.035	16,371	
<b>City of Hemet Community Facilities District No. 2004-1</b>	<b>100.</b>	<b>-</b>	(1)
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$17,266</b>	
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>			
Riverside County General Fund Obligations	0.002%	\$12,721	
Riverside County Board of Education Certificates of Participation	0.002	244	
Mount San Jacinto Community College District General Fund Obligations	0.006	469	
Hemet Unified School District Certificates of Participation	0.039	11,006	
City of Hemet Certificates of Participation	0.092	350	
Valley Wide Recreation and Park District General Fund Obligations	0.027	296	
<b>TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>	<b>\$</b>	<b>25,086</b>	
Less: Riverside County self-supporting obligations		428	
<b>TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$24,658</b>	
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$42,352</b>	(2)
<b>NET COMBINED TOTAL DEBT</b>		<b>\$41,924</b>	

(1) Excludes issue to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:

**Direct Debt** ..... - %  
Total Direct and Overlapping Tax and Assessment Debt ..... 0.76%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt ..... 1.88%  
Net Combined Total Debt ..... 1.86%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: \$0

*Source: California Municipal Statistics, Inc.*

Table 4 below sets forth the significant direct and overlapping assessment and special tax debt.

**Table 4  
Hemet Unified School District  
Community Facilities District No. 2004-1  
Summary of Significant Direct and Overlapping  
Assessment and Special Tax Debt**

<u>Overlapping District</u>	<u>Estimated Percent Applicable to CFD No. 2004-1</u>	<u>Total Debt Outstanding<sup>(1)</sup></u>	<u>Estimated Share of Total Debt Outstanding</u>
Metropolitan Water District	0.0002%	\$447,500,000.00	\$895.00
Riverside County Flood Control and Water Conservation District, Zone No. 3 Benefit Assessment District	0.0350%	\$467,742,857.14	\$16,371.00
Hemet Unified School District Community Facilities District No. 2004-1	100.00%	<u>\$3,700,000.00</u>	<u>\$3,700,000.00</u>
<b>Estimated Share of Overlapping Debt</b>		<b>\$918,942,857.14</b>	<b>\$3,717,266.00</b>

<sup>(1)</sup>Source: California Municipal Statistics, Inc. Report dated as of November 1, 2004.

Source: *David Taussig & Associates, Inc.*

Table 5 below sets forth estimated Fiscal Year 2004-05 overall tax rates projected to be applicable to a single family residential unit with  $\leq 1,950$  building square feet. Table 4 also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt.

**Table 5**  
**Hemet Unified School District**  
**Community Facilities District No. 2004-1**  
**Estimated Fiscal Year 2004-05 Tax Rates**  
**(Single Family Residential Unit  $\leq 1,950$  Building Square Feet)**

<b>ASSESSED VALUATIONS AND PROPERTY TAXES</b>		
Estimated Sales Price <sup>(1)</sup>	\$279,000.00	
Homeowner's Exemption	<u>(\$7,000.00)</u>	
Net Assessed Value <sup>(2)</sup>	\$272,000.00	
		<u>Percent of Total AV</u>
		<u>Projected Amount</u>
<b>AD VALOREM PROPERTY TAXES</b>		
General Purposes		1.00000%
Hemet Unified School District G.O. Bonds <sup>(3)</sup>		0.06000%
Metropolitan Water District		0.00670%
Total <i>Ad Valorem</i> Property Taxes		1.0667%
		\$2,720.00
		\$163.20
		\$18.22
		\$2,901.42
<b>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES<sup>(4)</sup></b>		
Hemet Unified School District Community Facilities District No. 2004-1	N/A	\$1,630.84
Metropolitan Water District Standby	N/A	\$6.94
Eastern Municipal Water District Combo Standby	N/A	\$10.00
County of Riverside Flood Control/Storm Water Valley-Wide MD 88-1	N/A	\$3.75
City of Hemet City Services District <sup>(5)</sup>	N/A	\$25.00
City of Hemet Lighting and Landscaping <sup>(5)</sup>	N/A	\$300.00
		\$200.00
<b>PROJECTED TOTAL PROPERTY TAXES</b>		<b>\$5,077.95</b>
Projected Total Effective Tax Rate (as % of Sales Price)		1.87%

Notes:

- (1) Estimated sales price for an average single family detached residential unit containing 1,896 square feet.
- (2) Assessed value reflects estimated total assessed value for the parcel net of homeowner's exemption.
- (3) This rate reflects the maximum that can be levied by the Hemet Unified School District. The actual rate for Fiscal Year 2003-04 is 0.03629%.
- (4) All charges and special assessments are based on a lot size of 7,688 square feet.
- (5) These amounts are based on conversations with the City and may vary from the actual assessments.

Source: David Taussig & Associates, Inc.



**Overlapping Assessment and Community Facilities Districts**

Except for the overlapping assessment districts of the Metropolitan Water District, Riverside County Flood Control and Water Conservation District, Zone No. 3 Benefit Assessment, as described in Table 4, the Community Facilities District is not aware of any other overlapping special tax or assessment districts for which bonded indebtedness has been issued or authorized.

Additional Debt Payable from Taxes or Assessments. The Community Facilities District has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County, or any other governmental agency having jurisdiction over all or a portion of the property within the Community Facilities District. Furthermore, nothing prevents the owners of property within the Community Facilities District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the property within a district on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the Community Facilities District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the 2004 Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the Community Facilities District to pay the Special Taxes when due.

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

**Other Overlapping Direct Assessments**

Metropolitan Water District Standby East. The Metropolitan Water District imposes an annual charge of \$6.94 per acre or \$6.94 per parcel for parcels under one (1) acre. This charge is used for capital improvements to the water distribution system and the construction and maintain of reservoirs.

Eastern Municipal Water District Combo Standby. The Eastern Municipal Water District imposes an annual charge of \$10.00 per acre; all property is rounded to the nearest acre. This charge is used to fund capital improvements to the water distribution system and to acquire, operate and maintain sewer facilities.

Valley-Wide Regional Facilities LMD 88-1. Valley-Wide Recreation & Park District formed LMD 88-1 to fund the maintenance and operation of regional parks and recreation facilities. The annual rates are outlined in the table below. The assessment cannot be increased without a vote of the registered voters within LMD 88-1.

<u>Land Use Category</u>	<u>Assessment</u>
Single Family Residential	\$22.14 per unit
Multi-Family Residential	\$13.62 per unit
Mobile Home Residential	\$6.22 per unit

**Transportation Uniform Mitigation Fee; Multiple Species Habitat Conservation Plan Fee**

In 2003, the County and the 14 cities in the western portion of the County adopted a new transportation fee for development which adds approximately \$6,650 to every new single-family house and approximately \$4,600 to each future apartment or condominium unit in the County, subject to credit for a portion, if any, of transportation facility fees imposed by the County or applicable city which relates to facilities encompassed within the new transportation fee. New retail, service and industrial development will also be charged the transportation fee based on the square footage of new development (\$8.90 per square foot

for retail, \$5.08 per square foot for service and \$1.65 per square foot for industrial). The fee was approved by the County in February 2003, effective 61 days thereafter. Cities may opt out of the fee, but if they do so, they will not be able to receive any money from Measure A, the County's half-cent sales tax initiative. Extension of the term of Measure A was approved by the voters at the November 5, 2002 election. Measure A is estimated to cover more than 50% of the cost of maintaining cities' roads and streets. The half-cent sales tax program is now extended an additional 30 years and will expire in 2039. The Appraisal is based on comparable land sales which in some instances were negotiated before implementation of the Transportation Uniform Mitigation Fee. The Transportation Uniform Mitigation Fee applies to lots within the Community Facilities District. The landowners will receive partial credit against payment of the Transportation Uniform Mitigation Fee based on funding of Facilities by the Community Facilities District.

On June 22, 2004, the County adopted, and the cities in the western portion of the County may adopt a new fee for the costs of a Multiple Species Habitat Conservation Plan. The fee adopted by the County, and which may be adopted by the cities, would apply to new development. The Ordinance adopted by the County was effective upon the issuance of the appropriate permits authorizing "take" in connection with the Multiple Species Habitat Conservation Plan by the U.S. Fish and Wildlife Service and the California Department of Fish and Game, which effective date occurred on June 22, 2004. See "COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Environmental Permits." The County fee ranges from approximately \$1,651 per home to \$5,620 an acre for commercial property. The County's fee will apply to lots for which building permits had not yet been issued. The effect of the Multiple Species Subarea Habitat Conservation Plan fee adopted by the County or which may be adopted by any city on land values and sales prices cannot be determined at this time.

## **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 2004 Bonds. The School 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 2004 Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the Community Facilities District to pay their Special Taxes when due. Any such failure to pay Special Taxes could result in the inability of the School District to make full and punctual payments of debt service on the 2004 Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the Community Facilities District.*

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

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the Community Facilities District, the supply of or demand for competitive properties in such area, and the market value of residential property in the event of sale or foreclosure; (ii) changes in real estate tax 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 and floods), which may result in uninsured losses.

### **Concentration of Ownership**

As of October 15, 2004, the Hemet/San Jacinto Ventures, LLC is responsible for 100% percent of the Special Taxes within Zone 1. See "THE COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Property Ownership and Development." If the Developer is unwilling or unable to pay the Special Tax when due, a potential shortfall in the Bond Fund could occur, which would result in the depletion of the Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the 2004 Bonds. The Developer is making a cash deposit in the amount of \$248,142.56 (the "Stated Amount") with the Fiscal Agent for the 2004 Bonds to guarantee payment of the Special Taxes when due. The cash deposit will be held only until the Hemet/San Jacinto Ventures, LLC owns property responsible for 45% or less of the Special Tax levied.

No property owner is obligated in any manner to continue to own or develop any of the land it presently owns within the Community Facilities District. The Special Taxes are not a personal obligation of the Developer or of any owner of the parcels, and the Community Facilities District can offer no assurance that any current owner or any future owner will be financially able to pay such installments or that it will choose to pay even if financially able to do so.

### **Failure to Develop Properties**

Development of property within the Community Facilities District may be subject to economic considerations and unexpected delays, disruptions and chances which may affect the willingness and ability of the Developer or any property owner to pay the Special Taxes when due.

Land development is also subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. As of October 15, 2004, the final map for Tract No. 28558 on 78 lots (76 lots proposed for residential units) has been recorded and a tentative tract map for Tract No. 31295 has been conditionally approved; the final map for Tract No. 31295 is expected to be recorded in February 2005 for the remaining 75 lots. The property within Zone 1 of the Community Facilities District is partially developed with public infrastructure improvements and construction, some of which are substantially complete; however, additional approvals are necessary to complete the development. It is possible that the approvals necessary to complete development of the property within the Community Facilities District will not be obtained on a timely basis. Failure to obtain any such approval could adversely affect land development operations within the Community Facilities District. In addition, there is a risk that future governmental restrictions on land development within the Community Facilities District will be enacted, either directly by a governmental entity with jurisdiction or by the voters through the exercise of the initiative power.

The failure to complete the development or the required infrastructure in the Community Facilities District or substantial delays in the completion of the development or the required infrastructure for the development due to litigation, the inability to obtain required funding, failure to obtain necessary governmental approval or other causes may reduce the value of the property within the Community Facilities District and increase the length of time during which Special Taxes will be payable from Undeveloped Property and may affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due. See "COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Appraised Property Values."

Bondowners should assume that any event that significantly impacts the ability to develop land in the Community Facilities District would cause the property values within the Community Facilities District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the Community Facilities District to pay the Special Taxes when due.

### **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 2004 Bonds have been issued.

### **The 2004 Bonds Are Limited Obligations of the Community Facilities District**

The Community Facilities District has no obligation to pay principal of and interest on the 2004 Bonds in the event Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent, nor is the Community Facilities District obligated to advance funds to pay such debt service on the 2004 Bonds.

## **Appraised Values**

The Appraisal summarized in APPENDIX C hereto estimates the fee simple interest market value of the Taxable Property within the Community Facilities District. This value is merely the present opinion of the Appraiser, and is qualified by the Appraiser as stated in the Appraisal. The School District has not sought the present opinion of any other appraiser of the value of the Taxable Property. A different present opinion of such value might be rendered by a different appraiser.

The opinion of value relates to sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell nor to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

In addition, the opinion is a present opinion. It is based upon present facts and circumstances. Differing facts and circumstances may lead to differing opinions of value. The appraised market value is not evidence of future value because future facts and circumstances may differ significantly from the present. See "COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Transportation Uniform Mitigation Fee; Multiple Species Habitat Conservation Plan Fee" for a description of a new fee relating to all development within western Riverside County which may affect market values.

No assurance can be given that if any of the Taxable Property in the Community Facilities District should become delinquent in the payment of Special Taxes, and be foreclosed upon, that such property could be sold for the amount of estimated market value thereof contained in the Appraisal.

## **Land Development**

A major risk to the Bondowners is that development by the property owners in the Community Facilities District may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay Special Taxes when due. For example, proposed development within the Community Facilities District could be adversely affected by unfavorable economic conditions, competing development projects, an inability of the current owners or future owners of the parcels to obtain financing, fluctuations in the real estate market or interest rates, unexpected increases in development costs, changes in federal, state or local governmental policies relating to the ownership of real estate, faster than expected depletion of existing water allocations, the appearance of previously unknown environmental impacts necessitating preparation of a supplemental environmental impact report, and by other similar factors. There can be no assurance that land development operations within the Community Facilities District will not be adversely affected by the factors described above.

In addition, partially developed land is less valuable than developed land and provides less security for the 2004 Bonds (and therefore to the owners of the 2004 Bonds) should it be necessary for the Community Facilities District to foreclose on undeveloped property due to the nonpayment of Special Taxes. Moreover, failure to complete future development on a timely basis could adversely affect the land values of those parcels which have been completed. Lower land values result in less security for the payment of principal of and interest on the 2004 Bonds and lower proceeds from any foreclosure sale necessitated by delinquencies in the payment of the Special Taxes.

Furthermore, an inability to develop the land within the Community Facilities District as planned will reduce the expected diversity of ownership of land within the Community Facilities District, making the payment of debt service on the 2004 Bonds more dependent upon timely payment of the Special Taxes levied on the undeveloped property. Because of the concentration of undeveloped property ownership, the timely payment of the 2004 Bonds depends upon the willingness and ability of the current owners of undeveloped land to whom finished lots are sold to pay the Special Taxes levied on the undeveloped land when due. Furthermore, continued concentration of ownership increases the potential negative impact of a bankruptcy or other financial difficulty experienced by the existing landowners. See "Concentration of Ownership" above.

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

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

The table in the section entitled “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Direct and Overlapping Debt” states the presently outstanding amount of governmental obligations (with stated exclusions), the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property and furthermore states the additional amount of general obligation bonds 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 2004 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 2004 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 “Hazardous Substances” below.

### **Disclosure to Future Purchasers**

The Community Facilities District has recorded a notice of the Special Tax lien in the Office of the Riverside County Recorder on September 28, 2004, as Document No. 2004-0772799. 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.

### **Government Approvals**

The Developer or its predecessor has secured most discretionary approvals, permits and government entitlements necessary to develop the land within the Community Facilities District. Nevertheless, development within the Community Facilities District is contingent upon the construction of a number of major public improvements as well as the necessary local in-tract improvements. The installation of the necessary improvements and infrastructure is subject to the receipt of construction or building permits from the County and other public agencies. The failure to obtain any such approval could adversely affect construction within the Community Facilities District. A slow down or stoppage of the construction process could adversely affect land values. No assurance can be given that permits will be obtained in a timely

fashion, if at all. The failure to do so may result in the prevention, or significant delays in the development of the Project or portions thereof. See “Failure to Develop Properties” above.

### **Local, State and Federal Land Use Regulations**

There can be no assurance that land development operations within the Community Facilities District will not be adversely affected by future government policies, including, but not limited to, governmental policies which directly or indirectly restrict or control development. During the past several years, citizens of a number of local communities in California have placed measures on the ballot designed to control the rate of future development. During the past several years, state and federal regulatory agencies have significantly expanded their involvement in local land use matters through increased regulatory enforcement of various environmental laws, including the Endangered Species Act, the Clean Water Act and the Clear Air Act, among others. Such regulations can substantially impair the rate and amount of development without requiring just compensation unless the effect of the regulation is to deny all economic use of the affected property. Bondowners should assume that any event that significantly impacts the ability to construct homes on land in the Community Facilities District could cause the land values within the Community Facilities District to decrease substantially and could affect the willingness and ability of the owners of land to pay the Special Taxes when due or to proceed with development of land in the Community Facilities District. See “Failure to Develop Properties” above.

### **Utility Deregulation**

The State of California in 2000 and 2001 experienced a crisis in the supply and pricing of electricity and natural gas. The crisis resulted in blackouts in several areas of the State and further outages were predicted for the summer months of 2001 when demand increases. No blackouts occurred in the summer of 2001 or 2002. The Community Facilities District is served by the Southern California Edison Company. Under the current terms of State regulation, until mid-2001 Southern California Edison Company had not been able to pass through significant portions of the substantial increase in the wholesale cost of gas and electricity to its customers. Southern California Edison Company and Pacific Gas and Electric Company experienced a significant cash crisis and Pacific Gas and Electric Company submitted a Chapter 11 bankruptcy filing for protection from its creditors on April 6, 2001. The effect on the local or State economy cannot be predicted.

### **State Budget**

As a result of the slowing State and United States of America economies, the State is experiencing serious budgetary shortfalls for the current fiscal year. Power purchases by the State from general fund appropriations have significantly reduced the State’s cash reserves. In addition, the terrorist attacks of September 11, 2001, and subsequent hostilities have resulted in increased uncertainty regarding the economic and revenue outlook for the State. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the Community Facilities District cannot be predicted.

### **Endangered and Threatened Species**

It is illegal to harm or disturb any plants or animals in their habitat that have been listed as endangered species by the United States Fish & Wildlife Service under the Federal Endangered Species Act or by the California Fish & Game Commission under the California Endangered Species Act without a permit. Thus, the presence of an endangered plant or animal could delay development of vacant property in the Community Facilities District or reduce the value of undeveloped property. Failure to develop the vacant property in the Community Facilities District as planned, or substantial delays in the completion of the planned development of the property may increase the amount of Special Taxes to be paid by the owners of undeveloped property and affect the willingness and ability of the owners of property within the Community Facilities District to pay the Special Taxes when due.

At present, the vacant property within the Community Facilities District is not known to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has listed as endangered or threatened. See the subheading “Environmental Review” under the caption “COMMUNITY FACILITIES DISTRICT NO. 2004-1” for a discussion of the permitting requirements the Developer satisfied in developing the property. Furthermore, the Developer reports that the vacant property within the Community Facilities District proposed to be developed by such

Developer is not known by such Developer to be inhabited by any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list.

### **Hazardous Substances**

While governmental taxes, assessments, and charges are a common claim against the value 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 hazardous substances. In general, the owners and operators of parcels within the Community Facilities District may be required by law to remedy conditions of the parcels related to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substances condition of a property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any parcel within the Community Facilities District be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. 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 financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

The value of the property within the Community Facilities District, as set forth in the appraised values set forth in the Appraisal hereto, do 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, except as expressly noted. 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 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 2004 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the Community Facilities District. The annual levy of the Special Tax is subject to the maximum tax rates authorized. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2004 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 a 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 2004 Bonds and certainly not a direct relationship.

The Special Tax levied in any particular tax year on a Taxable Property is based upon the revenue needs and the application of the Rate and Method, including the effects of the Minimum Annual Special Tax Requirement. 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; or
- (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 2004 BONDS – Special Taxes” and “– Rate and Method” herein, the Fiscal Agent Agreement provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE 2004 BONDS – Proceeds of Foreclosure Sales” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2004 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the School District of the proceeds of sale if the Reserve Fund is depleted. See “SECURITY FOR THE 2004 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 of the Community Facilities District. See “SECURITY FOR THE 2004 BONDS – Rate and Method” herein.

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see “SECURITY FOR THE 2004 BONDS – Rate and Method” herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the Community Facilities District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the School District or other public entities, this additional property might become exempt from the Special Tax.

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

### **Depletion of Reserve Fund**

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement (see “SECURITY FOR THE 2004 BONDS – Reserve Fund” herein). Funds in the Reserve Fund may be used to pay principal of and interest on the 2004 Bonds in the event the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District is insufficient. If funds in the Reserve Fund for the 2004 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



Bondowners pursuant to the Fiscal Agent Agreement. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

### **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 2004 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."

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

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

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Bondowners. High rates of special tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings, could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payment of the principal of, and interest on, the 2004 Bonds. See "Concentration of Ownership" above.

### **Bankruptcy and Foreclosure Delay**

The payment of Special Taxes and the ability of the Community Facilities District to foreclose the lien of delinquent Special Taxes as discussed in the section herein entitled "SECURITY FOR THE 2004 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 delivery of the 2004 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 2004 Bonds and the possibility of delinquent Special Taxes not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the property in the Community Facilities District is owned by the Developer or any other property owner and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the School District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court's ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor has sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise) it would at that time become subject to current *ad valorem* taxes.

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

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

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

The ability of the School 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 has or obtains an interest.

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 a 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 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 FDIC has filed claims against the County of Orange with respect to Mello-Roos community facilities district special taxes in the United States Bankruptcy Court and in Federal District Court in which the FDIC has taken a position similar to the position outlined in the Policy Statement. While all of such claims have not been resolved, the Bankruptcy Court has issued a tentative ruling in favor of the FDIC on certain of such claims. The County of Orange has appealed such ruling and the FDIC has cross-appealed. The decision of the United States Court of Appeals for the 9<sup>th</sup> Circuit (the "9<sup>th</sup> Circuit Court") was filed on August 28, 2001. In its decision, the Court stated that the FDIC, as a federal agency, is exempt from the Mello-Roos special tax. The FDIC has also filed suit (the "post-bankruptcy" suit) regarding special taxes imposed after 1994. However, such action has been stayed pending resolution of the 9<sup>th</sup> Circuit Court appeal by the FDIC regarding the bankruptcy case. The post-bankruptcy suit has recently been consolidated with the cases filed by the FDIC against other California counties and is pending in the United States District Court in Los Angeles. The FDIC has filed a motion to lift the bankruptcy stay.

The School 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 2004 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 Fund and perhaps, ultimately, a default in payment on the 2004 Bonds. Based upon the secured tax roll as of January 1, 2004, the FDIC does not presently own any of the property in the Community Facilities District. The School District expresses no view concerning the likelihood that the risks described above will materialize while the 2004 Bonds are outstanding.

### **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.

*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 2004 Bonds do not contain a provision allowing for the acceleration of the 2004 Bonds in the event of a payment default or other default under the terms of the 2004 Bonds or the Fiscal Agent Agreement. Pursuant to the Fiscal Agent Agreement, a Bondowner is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies (see APPENDIX D – “Summary of the Fiscal Agent Agreement” herein). So long as the 2004 Bonds are in book-entry form, DTC will be the sole bondowner and will be entitled to exercise all rights and remedies of bondowner.

### **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 within the Community Facilities District pursuant to the Act, more than two-thirds of the qualified electors within the Community Facilities District, consisting of the landowners within the boundaries of the Community Facilities District, authorized the Community Facilities District to incur bonded indebtedness to finance the Facilities and approved the Rate and Method. The Supreme Court of the State of California 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 the community facilities district.

Under provisions of the Act, the Special Taxes are billed to the properties within the Community Facilities District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular

property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See "SECURITY FOR THE 2004 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 2004 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 has covenanted in the Fiscal Agent Agreement under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the 2004 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 2004 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, as the Legislative Body of the Community Facilities District, to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the Board with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See "SECURITY FOR THE 2004 BONDS – Proceeds of Foreclosure Sales."

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

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

Among other things, Section 3 of Article XIII states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The 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 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 2004 Bonds.

It may be possible, however, for voters or the Community Facilities District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the 2004 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 2004 Bonds.

Like its antecedents, Proposition 218 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 Proposition 218 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.

The foregoing discussion of Proposition 218 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 Proposition 218 on the 2004 Bonds as well as the market for the 2004 Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

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

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

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the 2004 Bonds or, if a secondary market exists, that such 2004 Bonds can be sold for any particular price. Although the School District, the Community Facilities District and the Developer have 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 a credit rating for the 2004 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 the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the caption "LEGAL MATTERS – Tax Exemption," the interest on the Series 2004 Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2004 Bonds as a result of an acts or omission of the Community Facilities District and the School District in violation of certain provisions of the Code and the covenants of the Fiscal Agent Agreement. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2004 Bonds, the School District has covenanted in the Fiscal Agent Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2004 Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2004 Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Fiscal Agent Agreement. See "THE 2004 BONDS – Redemption."

## **Limitations on Remedies**

Remedies available to the Bondowners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2004 Bonds or to preserve the tax-exempt status of the 2004 Bonds. See “Payments by FDIC and other Federal Agencies,” “No Acceleration Provisions” and “Billing of Special Taxes” herein.

**The Board has not evaluated the foregoing risks, and further, is not aware of any evaluation of these risks by the landowners. Since these are largely business risks of the type that landowners customarily evaluate individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel of Taxable Property, the Board has undertaken financing of the acquisition and construction of the Facilities without regard to any such evaluation, as an incident to the orderly, planned development of the project site. Thus, formation of the Community Facilities District by the Board in no way implies that the Board has evaluated these risks or the reasonableness of these risks, but to the contrary, the Board has made no such evaluation and is undertaking acquisition and construction of the Facilities even though such risks may be serious and may ultimately halt or slow the progress of land development and forestall the realization of Taxable Property values.**

## **LEGAL MATTERS**

### **Legal Opinion**

The legal opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, approving the validity of the 2004 Bonds will be made available to purchasers at the time of original delivery and is attached hereto as Appendix G. A copy of the legal opinion will be printed on each Series 2004 Bond. McFarlin & Anderson LLP, Lake Forest, California is serving as Underwriter’s Counsel. Bowie, Arneson, Wiles & Giannone will also pass upon certain legal matters for the School District and the Community Facilities District as special counsel to these entities.

### **Tax Exemption**

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2004 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix G hereto, subject to the matters discussed below.

The opinions set forth in the preceding paragraph are subject to the condition that the Community Facilities District comply with all requirements of the Internal Revenue Code of 1986 (the “Code”) that must be satisfied subsequent to the issuance of the 2004 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Community Facilities District has covenanted in the Fiscal Agent Agreement to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2004 Bonds. The Fiscal Agent Agreement and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in certain circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed by Bond Counsel as to any Bond or any interest thereon if any such change is made or action is taken upon the advice and approval of counsel other than Bond Counsel. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the 2004 Bonds.

In the further opinion of Bond Counsel, interest on the 2004 Bonds is exempt from California personal income taxes.

Owners of the 2004 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2004 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2004 Bonds other than as expressly described above.

### **Original Issue Discount; Premium Bonds**

To the extent the issue price of any maturity of the 2004 Bonds is less than the amount to be paid at maturity of such 2004 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2004 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the 2004 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2004 Bonds is the first price at which a substantial amount of such maturity of the 2004 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2004 Bonds accrues daily over the term to maturity of such 2004 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2004 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2004 Bonds. Owners of the 2004 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of the 2004 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2004 Bonds in the original offering to the public at the first price at which a substantial amount of such 2004 Bonds is sold to the public.

The 2004 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser’s basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

### **Absence of Litigation**

No litigation is pending or threatened concerning the validity of the 2004 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 2004 Bonds or in any way contesting or affecting the validity of the 2004 Bonds or any proceedings of the Community Facilities District or the School District taken with respect to the execution thereof. A no litigation certificate executed by the School District on behalf of the Community Facilities District will be delivered to the Underwriter simultaneously with delivery of the 2004 Bonds.

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

The 2004 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 2004 Bonds, including amounts in the Reserve Fund, the Special Tax Fund and the Bond Fund and investment income on funds held pursuant to the Fiscal Agent Agreement (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the 2004 Bonds shall be limited to the Special Taxes to be collected within the jurisdiction of the Community Facilities District.

### **NO RATINGS**

The 2004 Bonds have not been rated by any securities rating agency.



**UNDERWRITING**

The 2004 Bonds are being purchased by Southwest Securities, Inc. at a purchase price of \$3,601,253.40 (which represents the aggregate principal amount of the 2004 Bonds of \$3,700,000.00, less an underwriter’s discount of \$44,400.00 and less an original issue discount of \$54,346.60).

The purchase agreement relating to the 2004 Bonds provides that the Underwriter will purchase all of the 2004 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 2004 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

**PROFESSIONAL FEES**

Except for some District Counsel fees paid from advances made to the School District by the Developer, fees payable to certain professionals, including the Underwriter, McFarlin & Anderson LLP, as Underwriter’s Counsel, Bowie, Arneson, Wiles & Giannone, as Bond Counsel, and U.S. Bank National Association, as the Fiscal Agent, are contingent upon the issuance of the 2004 Bonds. The fees of David Taussig & Associates, Inc., as Special Tax Consultant and Dissemination Agent, are in part contingent upon the issuance of the 2004 Bonds. The fees of Harris Realty Appraisal, as Appraiser, are not contingent upon the issuance of the 2004 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 2004 Bonds.

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

**COMMUNITY FACILITIES DISTRICT NO. 2004-1  
OF THE HEMET UNIFIED SCHOOL DISTRICT**

By: /s/ Dr. Philip O. Pendley  
Dr. Philip O. Pendley, Superintendent,  
on behalf of Hemet Unified School District  
Community Facilities District No. 2004-1

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## APPENDIX A

### GENERAL INFORMATION ABOUT THE HEMET UNIFIED SCHOOL DISTRICT

#### General Information

The Hemet Unified School District (the “School District”) was established on July 1, 1966, as a result of the unification of the Alamos and Cottonwood Districts, the Hemet Valley Union School District and the Hemet Union High School District. The School District covers approximately 740 square miles in the western part of Riverside County. The City of Hemet (the “City”) and unincorporated communities of Idyllwild, Anza, Aguanga and Winchester are situated within the School District’s boundaries. The City is located approximately forty-five miles west of Palm Springs, seventy-five miles north of San Diego, sixty-five miles east of Los Angeles and thirty-five miles southeast of Riverside. The School District’s total population is approximately 105,000.

The School District currently operates eleven elementary schools, three middle schools, three high schools, one continuation high school, one alternative high school, three kindergarten through grade eight schools<sup>4</sup> and classes for adult education.

#### Governing Board

The School District is governed by a seven-member Governing Board (the “Board”), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between three and four available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

#### HEMET UNIFIED SCHOOL DISTRICT GOVERNING BOARD

Name	Position	Term Expires
Gisela Gosch	President	December 2006
Marilyn Forst	Vice President	December 2006
Tom DeSantis	Member	December 2008
Charlotte Jones	Member	December 2008
Phyllis Petri	Member	December 2006
Bill Sanborn	Member	December 2006
Mike Cook	Member	December 2008

*Source: Hemet Unified School District.*

#### Key Personnel

The Superintendent of the School District is responsible for administering the affairs of the School District in accordance with the policies of the Board. The Assistant Superintendent, Business Services of the School District is the chief financial officer of the School District. The names and background of the Superintendent and the Assistant Superintendent, Business Services of the School District are set forth below:

**Phillip O. Pendley, Ed.D., Superintendent.** Dr. Pendley has been Superintendent of the School District since August 2002. Prior to becoming Superintendent, Dr. Pendley was the Superintendent of the Chawanakee Joint School District and the Minarets Joint Union High School District. Dr. Pendley received his Bachelors of Science from California State University at Fresno, his Master’s Degree in Educational Administration from Fresno Pacific College and his Doctorate Degree in Organizational Leadership from the University of La Verne.

**Richard M. Beck, Assistant Superintendent, Business Services.** Mr. Beck has been Assistant Superintendent, Business Services of the School District since July 1997. Mr. Beck has worked for the School District since 1991 holding various positions relating to the Business Services department. Mr. Beck received his Bachelor of Arts and his Masters of Public Administration from California State University at Stanislaus.

**Population**

Separate population statistics are not maintained for the School District. The School District believes that the statistics for the City of Hemet area are indicative of population trends within the School District.

**POPULATION  
CALENDAR YEARS 1991 THROUGH 2004**

<b>Calendar Year</b>	<b>City of Hemet</b>	<b>County of Riverside</b>	<b>State of California</b>
1991	37,600	1,221,300	30,143,000
1992	49,000	1,275,500	30,723,000
1993	50,000	1,312,300	31,150,000
1994	50,300	1,340,200	31,481,000
1995	50,100	1,365,500	31,617,000
1996	50,200	1,391,800	31,837,000
1997	50,600	1,420,600	32,207,000
1998	54,200	1,451,400	32,657,000
1999	57,800	1,490,500	33,140,000
2000	58,500	1,533,800	33,753,000
2001	59,900	1,586,900	34,431,000
2002	61,700	1,648,800	35,049,000
2003	62,700	1,719,000	35,612,000
2004	63,800	1,776,700	36,144,000

*Source: State of California, Department of Finance.*

**Average Daily Attendance and Growth**

The total average daily attendance for the 2003-04 academic year was 18,779. On average throughout the School District, the pupil-teacher ratio is approximately 20 to 1 in grades K-3, approximately 31 to 1 in grades 4-5 and approximately 30 to 1 in grades 6-12.

The following table reflects the average daily attendance for the School District for the last five years and a projection through 2004-05.

**HEMET UNIFIED SCHOOL DISTRICT  
AVERAGE DAILY ATTENDANCE  
FISCAL YEARS 1999-00 THROUGH 2004-05**

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>
1999-00	15,672
2000-01	16,462
2001-02	17,080
2002-03	17,842
2003-04	18,779
2004-05 <sup>(1)</sup>	19,267

<sup>(1)</sup>Estimated.

*Source: Hemet Unified School District.*

**Employees**

As of September 22, 2004, the School District employed 1,679 certificated employees and 1,287 classified management and supervisory employees. The following table sets forth the number of certificated and classified employees (both full-time and part-time) employed by the School District for the past ten years.

**HEMET UNIFIED SCHOOL DISTRICT  
DISTRICT EMPLOYEES  
FISCAL YEARS 1999-00 THROUGH 2003-04**

<u>Fiscal Year</u>	<u>Certificated Employees</u>	<u>Classified Employees</u>	<u>Total Employees</u>
1999-00	774	607	1,381
2000-01	911	695	1,506
2001-02	876	774	1,650
2002-03	890	820	1,710
2003-04	1,007	708	1,715

*Source: Hemet Unified School District.*

**Labor Relations**

As of September 22, 2004, the School District employed 1,679 full-time and part-time certificated employees and 1,287 classified, management and supervisory employees. These employees, except management and some part-time employees, are represented by the two bargaining units as noted below:

**HEMET UNIFIED SCHOOL DISTRICT  
DISTRICT EMPLOYEES**

<u>Labor Organization</u>	<u>Number of Employees In Bargaining Unit</u>	<u>Contract Expiration Date</u>
Hemet Unified Teachers' Association	1,007	June 30, 2004
California School Employees' Association	708	June 30, 2007

*Source: Hemet Unified School District.*

The School District is currently in negotiations with the Hemet Unified Teachers' Association, for a new contract and expects to enter into a new contract with the Hemet Unified Teachers' Association in early 2005.

**Retirement Programs**

The School District participates in the State of California Teachers' Retirement System ("STRS"). This plan covers all full-time and most part-time certificated employees. The School District's contribution to STRS for Fiscal Year 2002-03 was \$5,220,031 and for Fiscal Year 2003-04 was \$5,143,376. The School District has budgeted \$5,273,026 for Fiscal Year 2004-05. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The School District also participates in the State of California Public Employees' Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. The School District's contribution to PERS was \$2,781,800 for Fiscal Year 2002-03 and \$2,861,650 for Fiscal Year 2003-04. The School District has budgeted \$3,080,935 for Fiscal Year 2004-05. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of service to California public schools.

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

**Other Post-Employment Benefits**

**Health Care Benefits.** The School District provides post-employment health care benefits under collective bargaining agreements to all employees who retire on or after attaining age 55 with ten or more years of service with the School District. Currently, 57 retirees meet those eligibility requirements. For retirees, the School District provides health insurance to age 65 at a contribution amount not to exceed \$3,000 annually. During the fiscal year ended June 30, 2003, expenditures of \$330,251 were reconveyed for retirees' health care benefits.

**Early Retirement Incentive.** For Fiscal Year 2002-03, the Board adopted an Early Retirement Incentive Program. The School District entered into contracts with certain eligible employees whereby the School District made annual annuity contributions, to a qualified California annuity carrier. The School District's sole liability was to provide the annual contributions for five consecutive years, or death of a retiree, whichever comes first. During the fiscal year ended June 30, 2003, \$644,000 was paid in early retirement benefits. The School District did not enter into new contracts for Fiscal Year 2003-04 and does not anticipate entering into a new contract for Fiscal Year 2004-05.

**Insurance**

The School District maintains property and liability insurance through the Riverside Schools Insurance Authority, a joint powers authority ("RSIA"). The School District pays an annual premium for the insurance provided by RSIA. The School District is self-insured for the first \$25,000 per occurrence for

property claims and \$50,000 per occurrence for liability claims. The property policy does not cover flood or earthquake damage.

The School District maintains workers' compensation coverage to a limit of \$200,000,000 per occurrence through the Western Riverside County Schools' Self-Insurance Program for Employers. The School District is self-insured for medical, dental and vision to a limit of \$125,000 per claim. The School District has a stop loss policy for claims that exceed the maximum self-insured amount.

***Ad Valorem* Property Taxation**

The School District property taxes are assessed and collected by Riverside County at the same time and on the same rolls as the special district property taxes. Assessed valuations are the same for both School District and County taxing purposes.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes are payable in two installments due November 1 and February 1, respectively, and become delinquent on December 10 and April 10 for each respective installment. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year based on the preceding fiscal year's secured tax rate and become delinquent on October 31.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the "unsecured roll."

**HEMET UNIFIED SCHOOL DISTRICT  
Assessed Valuations  
Fiscal Years 1997-98 through 2003-04**

	<u>Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total <sup>(1)</sup></u>
1997-98	\$4,188,898,595	\$1,295,950	\$143,684,463	\$4,333,879,008
1998-99	4,111,403,528	1,649,025	222,263,676	4,335,316,229
1999-00	4,208,369,154	1,750,291	231,934,223	4,442,053,668
2000-01	4,402,427,928	1,776,613	208,109,571	4,612,314,112
2001-02	4,744,432,544	1,801,856	132,103,157	4,878,337,557
2002-03	5,139,454,761	1,674,439	132,808,043	5,273,937,273
2003-04	5,560,786,413	1,474,720	129,390,100	5,691,651,233

<sup>(1)</sup> Before redevelopment increment and excludes unitary utility valuation.

*Source: California Municipal Statistics, Inc.*

## Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the School District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed which produces additional revenue.

A ten percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty (i.e., interest) to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The County levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries.

The County pays to the School District its portion of the basic *valorem* property tax levy. These property taxes are then supplemented by the State to provide to the School District its revenue limit. See "GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION – State Funding of Education."

In addition to the basic 1% *ad valorem* property tax levied pursuant to Article XIII, the County levies for the School District additional *ad valorem* property taxes to repay the School District's outstanding general obligation bonds. Table 4 below summarizes this levy for the two prior fiscal years.

### HEMET UNIFIED SCHOOL DISTRICT Secured Tax Charges and Delinquencies Fiscal Years 2002-03 through 2003-04

	Secured Tax Charge <sup>(1)</sup>	Amt. Del. June 30	% Del. June 30
2002-03	\$1,805,875.96	\$58,332.70	3.23%
2003-04	2,879,835.24	87,413.16	3.04

<sup>(1)</sup> Bond debt service levy only.

*Source: California Municipal Statistics, Inc.*

### Alternative Method of Tax Apportionment - "Teeter Plan"

With respect to collection of property taxes, the County has adopted the Teeter Plan, which is an alternate authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) (the "Law") for distribution of certain property tax and assessment levies on the secured roll. Pursuant to the Law, the County adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes and assessments are distributed to participating County taxing agencies on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all taxing agencies is avoided. In connection with its adoption of the Teeter Plan, the County advanced to the participating taxing agencies an amount equal to 95% of the total prior years delinquent secured property taxes and assessments (not including penalties and interest) and 100% of the current year's delinquent secured property taxes and assessments outstanding.



Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal years the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for the agency.

**Tax Rates**

The following table summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within the School District during the five year fiscal year period from 2000-01 to 2004-2005.

**HEMET UNIFIED SCHOOL DISTRICT  
Summary of *Ad Valorem* Tax Rates  
Fiscal Years 2000-01 through 2004-05**

**Typical Total Tax Rates (TRA 6-001)**

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
General	1.0000%	1.0000%	1.00000%	1.00000%	1.00000%
Hemet Unified School District	.0000	.0000	.03629	.05321	.05324
Metropolitan Water District	.0088	.0077	.00670	.00610	.00580
Eastern Municipal Water District, I.D. No. 17	<u>.0030</u>	<u>.0030</u>	<u>.00000</u>	<u>.00000</u>	<u>.00000</u>
Total	1.0118%	1.0107%	1.04299%	1.05931%	1.05904%

*Source: California Municipal Statistics, Inc.*

## Principal Taxpayers

The following table lists the major taxpayers in the Hemet Unified School District in terms of their 2004-05 secured assessed valuations.

### HEMET UNIFIED SCHOOL DISTRICT Largest 2004-05 Local Secured Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2004-05 Assessed Valuation</u>	<u>% of Total<sup>(1)</sup></u>
1.	Freedom Properties Hemet	Hotel	\$ 34,777,993	0.55%
2.	MCS Hemet Valley Center	Shopping Center	27,282,498	0.43
3.	James Femino	Commercial Store	25,278,806	0.40
4.	BHI Dover XVI	Shopping Center	24,334,178	0.38
5.	John M. Sachs Inc.	Apartments	21,992,219	0.35
6.	K. Hovnanian's Four Seasons at Hemet	Residential Properties	17,782,528	0.28
7.	Hensley Properties	Apartments	16,547,281	0.26
8.	KB Home Coastal Inc.	Residential Properties	16,389,890	0.26
9.	Western Pacific Housing	Vacant Residential	15,600,000	0.25
10.	Amberwood Villas	Apartments	13,853,912	0.22
11.	Merrill Gardens	Hotel	13,631,168	0.22
12.	Century TCI California Communications LP	Communications	13,335,033	0.21
13.	Vintage Pointe Properties	Apartments	11,594,726	0.18
14.	Deutsche Co. Electronic Components Division	Communications	11,483,790	0.18
15.	Hemet Retirement Residence LLC	Retirement Home	10,638,024	0.17
16.	MGP V	Hotel	10,292,273	0.16
17.	Empire Homes II	Residential Properties	10,137,547	0.16
18.	Agri Empire	Agriculture	9,619,435	0.15
19.	J Mar Investment Co.	Commercial Store	9,545,934	0.15
20.	Home Depot USA Inc.	Commercial Store	<u>9,424,424</u>	<u>0.15</u>
			\$ 323,541,659	5.11%

<sup>(1)</sup> 2004-05 Local Secured Assessed Valuation: \$6,335,495,863

*Source: California Municipal Statistics, Inc.*

**APPENDIX B**

**FIRST AMENDED  
RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
OF HEMET UNIFIED SCHOOL DISTRICT**

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**FIRST AMENDED  
RATE AND METHOD OF APPORTIONMENT FOR  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
OF HEMET UNIFIED SCHOOL DISTRICT**

The following sets forth the Rate and Method of Apportionment ("RMA") for the levy and collection of Special Taxes by Community Facilities District No. 2004-1 ("CFD No. 2004-1") of the Hemet Unified School District ("School District"). A Special Tax shall be levied on and collected in CFD No. 2004-1 each Fiscal Year in an amount determined through the application of the RMA described below. All of the real property in CFD No. 2004-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

**SECTION A  
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map or as calculated from the applicable Assessor's Parcel Map by the Board.

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

**"Administrative Expenses"** means any ordinary and necessary expense incurred by the School District on behalf of CFD No. 2004-1 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes including the expenses of collecting delinquencies, the administration of Bonds, the payment of salaries and benefits of any School District employee whose duties are directly related to the administration of CFD No. 2004-1, and costs otherwise incurred in order to carry out the authorized purposes of CFD No. 2004-1.

**"Annexation Property"** means any additional property not within the original boundaries of CFD No. 2004-1 that is annexed into CFD No. 2004-1, subsequent to the formation of CFD No. 2004-1.

**"Annual Special Tax"** means the Special Tax actually levied in any Fiscal Year on any Assessor's Parcel.

**"Assessor's Parcel"** means a lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number within the boundaries of CFD No. 2004-1.

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

**"Assessor's Parcel Number"** means that number assigned to an Assessor's Parcel by the County for purposes of identification.

**"Assigned Annual Special Tax"** means the Annual Special Tax applicable to an Assessor's Parcel determined pursuant to Section D.

**"Backup Annual Special Tax"** means the Special Tax of that name described in Section E.

**"Board"** means the Governing Board of Hemet Unified School District, or its designee, acting as the Legislative Body of CFD No. 2004-1.

**"Bond Index"** means the national Bond Buyer Revenue Index, commonly referenced as the 25-Bond Revenue Index. In the event the Bond Index ceases to be published, the index used shall be based on a comparable index for revenue bonds maturing in 30 years with an average rating equivalent to Moody's A1 and S&P's A-plus, as reasonable determined by the Board.

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

**"Bond Yield"** means the yield on the last series of Bonds issued, as calculated at the time the Bonds are issued, pursuant to Section 148 of the Internal Revenue Code of 1986, as amended for the purpose of the Non-Arbitrage Certificate or other similar bond issuance document.

**"Building Permit"** means a permit for the construction of one or more Units issued by the City, or another public agency in the event the City no longer issues said permits for the construction of Units within CFD No. 2004-1. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, utility improvements, or other such improvements not intended for human habitation.

**"Building Square Footage"** or **"BSF"** means the square footage of assessable internal living space of a Unit, exclusive of any carports, walkways, garages, overhangs, patios, enclosed patios, detached accessory structure, or other structures not used as living space, as determined by reference to the Building Permit for such Unit.

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

**"CFD No. 2004-1"** means Community Facilities District No. 2004-1 of the Hemet Unified School District established under the Act.

**"City"** means the City of Hemet.

**"County"** means the County of Riverside.

**"Developed Property"** means all Assessor's Parcels of Taxable Property for which Building Permits were issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year and that each such Assessor's Parcel is associated with a Lot, as determined reasonably by the Board.

**"Exempt Property"** means all Assessor's Parcels designated as being exempt from Special Taxes pursuant to Section K.

**"Final Map"** means a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates building sites, recorded in the County Office of the Recorder.

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

**"Homeowner"** means any owner of a completed Unit constructed and sold within CFD No. 2004-1.

**"Index"** means the Marshall & Swift Western Region Class D Wood Frame Index, or if the Marshall & Swift Western Region Class D Wood Frame Index ceases to be used by the State Allocation Board, a reasonably comparable index used by the State Allocation Board to estimate changes in school construction costs, or in the absence of such an index, the Engineer's News Record Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc. shall be used.

**"Initial Assigned Annual Special Tax"** means the Assigned Annual Special Tax applicable to an Assessor's Parcel classified as Taxable Property for the first time in that Fiscal Year.

**"Lot"** means an individual legal lot created by a Final Map for which a Building Permit could be issued.

**"Maximum Annual Special Tax"** means the Special Tax of that name as described in Section C.

**"Minimum Annual Special Tax Requirement"** means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds, (ii) Administrative Expenses of CFD No. 2004-1, (iii) the costs associated with the release of funds from an escrow account, and (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, less (v) any amount available to pay debt service or other periodic costs on the Bonds pursuant to any applicable bond indenture, fiscal agent agreement, or trust agreement.

**"Minimum Taxable Acreage"** means the applicable Acreage classified as Taxable Property as determined pursuant to Section K.

**"Partial Prepayment Amount"** means the amount required to prepay a portion of the Annual Special Tax obligation for an Assessor's Parcel described in Section I.

**"Prepayment Amount"** means the amount required to prepay the Annual Special Tax obligation in full for an Assessor's Parcel as described in Section H.

**"Prepayment Administrative Fees"** means any fees or expenses of the School District or CFD No. 2004-1 associated with the prepayment of the Special Tax obligation of an Assessor's Parcel. Prepayment Administrative Fees shall include among other things the cost of computing the Prepayment Amount, redeeming Bonds, and recording any notices to evidence the prepayment and redemption of Bonds.

**"Present Value of Taxes"** means for any Assessor's Parcel the present value of (i) the unpaid portion, if any, of the Special Tax applicable to such Assessor's Parcel in current Fiscal Year and (ii) the Annual Special Taxes expected to be levied on such Assessor's Parcel in each remaining Fiscal Year, as determined by the Board, until the termination date specified in Section J. Prior to the issuance of the last series of Bonds the period used to calculate the Present Value of Taxes shall be thirty-three (33) Fiscal Years following the Fiscal Year after the calculation of the applicable

Prepayment Amount. The discount rate used for this calculation shall be equal to the (i) Bond Yield after Bond issuance or (ii) most recently published Bond Index prior to Bond issuance.

**"Proportionately"** means that the ratio of the actual Annual Special Tax levy to the applicable Special Tax is equal for all applicable Assessor's Parcels.

**"Reserve Fund Credit"** means an amount equal to the reduction in the applicable reserve fund requirement(s) resulting from the redemption of Bonds with the Prepayment Amount. In no event shall a Reserve Fund Credit be given, if at the time the Prepayment Amount is calculated the reserve fund balance is below the applicable reserve fund requirement.

**"School District"** means the Hemet Unified School District, or subsequent school district.

**"Special Tax"** means any of the special taxes authorized to be levied by CFD No. 2004-1 pursuant to the Act.

**"Taxable Property"** means all Assessor's Parcels that are not Exempt Property.

**"Undeveloped Property"** means all Assessor's Parcels of Taxable Property that are not Developed Property.

**"Unit"** means each separate residential dwelling unit that comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

**"Zone"** means the area(s) identified as a Zone of CFD No. 2004-1 as in Exhibit A to this RMA or as designated by the Board as property is annexed into CFD No. 2004-1, subject to Section N.

**"Zone 1"** means all property located within the area identified as Zone 1 of CFD No. 2004-1 as in Exhibit A to this RMA subject to interpretation by the Board as described in Section B, or as designated by the Board as property is annexed into CFD No. 2004-1 subject to Section N.

**"Zone 2"** means all property located within the area identified as Zone 2 of CFD No. 2004-1 as in Exhibit A to this RMA subject to interpretation by the Board as described in Section B, or as designated by the Board as property is annexed into CFD No. 2004-1 subject to Section N.

**"Zone 3"** means all property located within the area identified as a Zone 3 of CFD No. 2004-1 as in Exhibit A to this RMA subject to interpretation by the Board as described in Section B, or as designated by the Board as property is annexed into CFD No. 2004-1, subject to Section N.

**"Zone 4"** means all property located within the area identified as a Zone 4 of CFD No. 2004-1 as in Exhibit A to this RMA subject to interpretation by the Board as described in Section B, or as designated by the Board as property is annexed into CFD No. 2004-1, subject to Section N.



**SECTION B  
CLASSIFICATION OF ASSESSOR'S PARCELS**

Each Fiscal Year, beginning with Fiscal Year 2005-06, (i) each Assessor's Parcel shall be assigned to a Zone specified at the formation of CFD No. 2004-1 or at the time such property is annexed to CFD No. 2004-1; (ii) each Assessor's Parcel shall be classified as Exempt Property or Taxable Property; (iii) each Assessor's Parcel of Taxable Property shall be classified as Developed Property or Undeveloped Property. Developed Property may be further classified based on the Building Square Footage of the Unit. The classification of Exempt Property shall be done taking into consideration the Minimum Taxable Acreage of the applicable Zone, as determined pursuant to Section K.

**SECTION C  
MAXIMUM ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Maximum Annual Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone in any Fiscal Year shall be the amount determined by the greater of (i) the application of the Assigned Annual Special Tax for such Zone or (ii) the application of the Backup Annual Special Tax for such Zone.

**2. Undeveloped Property**

The Maximum Annual Special Tax for each Assessor's Parcel classified as Undeveloped Property within a particular Zone in any Fiscal Year shall be the amount determined by the application of the Assigned Annual Special Tax for such Zone.

**SECTION D  
ASSIGNED ANNUAL SPECIAL TAXES**

**1. Developed Property**

The Initial Assigned Annual Special Tax applicable to an Assessor's Parcel classified as Developed Property in Fiscal Year 2005-06 shall be determined by reference to Tables 1, 2, 3 and 4 according to the Zone within which the Assessor's Parcel is located.

**TABLE 1  
INITIAL ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED PROPERTY WITHIN ZONE 1  
FISCAL YEAR 2005-06**

<b>Tax Class</b>	<b>BSF</b>	<b>Initial Assigned Annual Special Tax</b>
1	< 1,950	\$1,630.84 per Unit
2	1,951 – 2,200	\$1,689.30 per Unit
3	2,201 – 2,450	\$1,747.75 per Unit
4	2,451 – 2,600	\$1,806.20 per Unit
5	> 2,600	\$1,864.66 per Unit

**TABLE 2**

**INITIAL ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED PROPERTY WITHIN ZONE 2  
FISCAL YEAR 2005-06**

<b>Tax Class</b>	<b>BSF</b>	<b>Initial Assigned Annual Special Tax</b>
1	≤ 1,300	\$1,420.82 per Unit
2	1,301 – 1,600	\$1,504.15 per Unit
3	1,601 – 1,900	\$1,587.48 per Unit
4	> 1,900	\$1,754.14 per Unit

**TABLE 3**

**INITIAL ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED PROPERTY WITHIN ZONE 3  
FISCAL YEAR 2005-06**

<b>Tax Class</b>	<b>BSF</b>	<b>Initial Assigned Annual Special Tax</b>
1	≤ 1,950	\$2,062.47 per Unit
2	1,951 – 2,200	\$2,166.63 per Unit
3	2,201 – 2,450	\$2,270.79 per Unit
4	2,451 – 2,600	\$2,333.29 per Unit
5	> 2,600	\$2,395.79 per Unit

**TABLE 4**

**INITIAL ASSIGNED ANNUAL SPECIAL TAX FOR  
DEVELOPED PROPERTY WITHIN ZONE 4  
FISCAL YEAR 2005-06**

<b>Tax Class</b>	<b>BSF</b>	<b>Initial Assigned Annual Special Tax</b>
1	Na	\$1,503.40 per Unit

Each July 1, commencing July 1, 2006, the Initial Assigned Annual Special Tax for each Assessor's Parcel of Developed Property shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the prior Fiscal Year. Each Fiscal Year following the Fiscal Year in which the Initial Assigned Annual Special Tax is applied to an Assessor's Parcel of Developed Property, the Assigned Annual Special Tax applicable to such Assessor's Parcel shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**2. Undeveloped Property**

The Initial Assigned Annual Special Tax rate for an Assessor's Parcel of Undeveloped Property in Fiscal Year 2005-06 shall be the amount per acre of Acreage determined pursuant to Table 5 according to the Zone within which the Assessor's Parcel is located.

**TABLE 5**

**INITIAL ASSIGNED ANNUAL SPECIAL TAX FOR  
UNDEVELOPED PROPERTY  
FISCAL YEAR 2005-06**

<b>Tax Class</b>	<b>Initial Assigned Annual Special Tax</b>
Zone 1	\$11,255.08 per Unit
Zone 2	\$9,974.85 per Unit
Zone 3	\$14,034.99 per Unit
Zone 4	\$9,387.25 per Unit

Each July 1, commencing July 1, 2006, the Initial Assigned Annual Special Tax for an Assessor's Parcel of Undeveloped Property shall be increased by the greater of the annual percentage change in the Index or two percent (2.00%) of the amount in effect the prior Fiscal Year. The annual percentage change in the Index shall be calculated for the twelve (12) months ending December 31 of the prior Fiscal Year. Each Fiscal Year following the Fiscal Year in which the Initial Assigned Annual Special Tax is applied to an Assessor's Parcel of Undeveloped Property, the Assigned Annual Special Tax applicable to such Assessor's Parcel shall be increased by two percent (2.00%) of the amount in effect the prior Fiscal Year.

**SECTION E  
BACKUP ANNUAL SPECIAL TAXES**

Each Fiscal Year, each Assessor's Parcel of Developed Property within each Zone shall be subject to a Backup Annual Special Tax. In each Fiscal Year, the Backup Annual Special Tax rate for Developed Property shall be the rate per Lot calculated according to the following formula:

$$B = (Z \times A) / L$$

The terms above have the following meanings:

- B = Backup Annual Special Tax per Lot for the applicable Fiscal Year
- Z = Assigned Annual Special Tax per acre of Acreage of Undeveloped Property for such Zone for the applicable Fiscal Year
- A = Acreage of Developed Property expected to exist in the applicable Final Map at build-out, as determined by the Board pursuant to Section K
- L = Lots in the Final Map

In the event that a Final Map includes Lots located within more than one (1) Zone, the Final Map shall be separated by such Zones for purposes of calculating the Backup Annual Special Tax applicable to such Lots.

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

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

## **SECTION F**

### **METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX**

Commencing Fiscal Year 2005-06, and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes as follows:

- Step One:** The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel.
- Step Two:** If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall levy Proportionately an Annual Special Tax on each Assessor's Parcel of Undeveloped Property, up to the Assigned Annual Special Tax of the designated Zone applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.
- Step Three:** If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the Board shall additionally levy an Annual Special Tax of the designated Zone Proportionately on each Assessor's Parcel of Developed Property, up to the Maximum Annual Special Tax of the designated Zone applicable to each such Assessor's Parcel, to satisfy the Minimum Annual Special Tax Requirement.

**SECTION G  
EXCESS ASSIGNED ANNUAL SPECIAL TAXES**

In any Fiscal Year which the Annual Special Taxes collected from Developed Property, pursuant to Step 1 of Section F, exceeds the Minimum Annual Special Tax Requirement, the School District shall use such amount for acquisition, construction or financing of school facilities in accordance with the Act, CFD No. 2004-1 proceedings and other applicable law as determined by the Board.

**SECTION H  
PREPAYMENT OF ANNUAL SPECIAL TAXES**

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

An owner of an Assessor's Parcel intending to prepay the Annual Special Tax obligation shall provide CFD No. 2004-1 with written notice of intent to prepay. Within thirty (30) days of receipt of such written notice, the Board shall reasonably determine the prepayment amount of such Assessor's Parcel and shall notify such owner of such Prepayment Amount. The Prepayment Amount shall be calculated according to the following formula:

$$P = PVT - RFC + PAF$$

The terms above have the following meanings:

P	=	Prepayment Amount
PVT	=	Present Value of Taxes
RFC	=	Reserve Fund Credit
PAF	=	Prepayment Administrative Fees

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year and such prepayment will not impair the security of all currently outstanding Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

**SECTION I**  
**PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel may be partially prepaid at the times and under the conditions set forth in this section, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid.

**1. Partial Prepayment Times and Conditions**

Prior to the conveyance of the first production Unit on a Lot within a Final Map to an Homeowner, the owner of no less than all the Taxable Property within such Final Map may elect in writing to the Board to prepay a portion of the Annual Special Tax obligations for all the Assessor's Parcels within such Final Map, as calculated in Section I.2. below. The partial prepayment of each Annual Special Tax obligation shall be collected for all Assessor's Parcels prior to the issuance of the first Building Permit with respect to such Final Map.

**2. Partial Prepayment Amount**

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

$$PP = P_G \times F$$

The terms above have the following meanings:

- PP = the Partial Prepayment Amount
- P<sub>G</sub> = the Prepayment Amount calculated according to Section H
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation

**3. Partial Prepayment Procedures and Limitations**

With respect to any Assessor's Parcel that is partially prepaid, the Board shall indicate in the records of CFD No. 2004-1 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the partial prepayment of the Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease. Additionally, the notice shall indicate that the Assigned Annual Special Tax and the Backup Annual Special Tax for the Assessor's Parcel has been reduced by an amount equal to the percentage which was partially prepaid.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Taxes that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding Bonds in each future Fiscal Year and such partial prepayment will not impair the security of all currently outstanding Bonds, as reasonably determined by the Board. Such determination shall include identifying all Assessor's Parcels that are expected to become Exempt Property.

**SECTION J  
TERMINATION OF SPECIAL TAX**

Annual Special Taxes shall be levied for a period of thirty-three (33) Fiscal Years after the last series of Bonds has been issued, as determined by the Board, provided that Annual Special Taxes shall not be levied after Fiscal Year 2045-46.

**SECTION K  
EXEMPTIONS**

The Board shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' association, (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor's Parcels developed or expected to be developed exclusively for non-residential use, including any use directly servicing any non-residential property, such as parking, as reasonably determined by the Board, and (vi) any other Assessor's Parcels at the reasonable discretion of the Board. The Board shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property in a given Zone to less than the applicable Minimum Taxable Acreage. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property in a given Zone to less than the applicable Minimum Taxable Acreage shall continue to be classified as Developed Property or Undeveloped Property, as applicable, and will continue to be subject to Special Taxes accordingly.

**TABLE 6**

**MINIMUM TAXABLE ACREAGE**

<b>Tax Class</b>	<b>Minimum Taxable Acreage</b>
Zone 1	23.98 acres
Zone 2	0 acres
Zone 3	0 acres
Zone 4	0 acres

The Minimum Taxable Acreage for each Zone may be increased by the Minimum Taxable Acreage of all Annexation Property as determined by the Board at the time of such annexation.

**SECTION L  
APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Board not later than twelve months after having paid the first installment of the Special Tax that is disputed. In order to be considered sufficient, any notice of appeal must: (i) specifically identify the property by address and Assessor's Parcel Number; (ii) state the amount in dispute and whether it is the whole amount or only a portion of the Special Tax; (iii) state all grounds on which the property owner is disputing the amount or application of the Special

Tax, including a reasonably detailed explanation as to why the amount or application of such Special Tax is incorrect; (iv) include all documentation, if any, in support of the claim; and (v) be verified under penalty of perjury by the person who paid the Special Tax or his or her guardian, executor or administrator. A representative(s) of CFD No. 2004-1 shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s) as the representative's decision shall indicate.

## **SECTION M MANNER OF COLLECTION**

The Annual 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. 2004-1 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

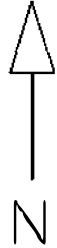
## **SECTION N ANNEXATION OF PROPERTY**

Subsequent to the formation of CFD No. 2004-1, additional property may be annexed into the boundaries of CFD No. 2004-1. In the event that additional property is annexed into the boundaries of CFD No. 2004-1, such annexation shall not modify the apportionment of Special Taxes to Taxable Property which was within the boundaries of CFD No. 2004-1 prior to such annexation.



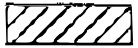


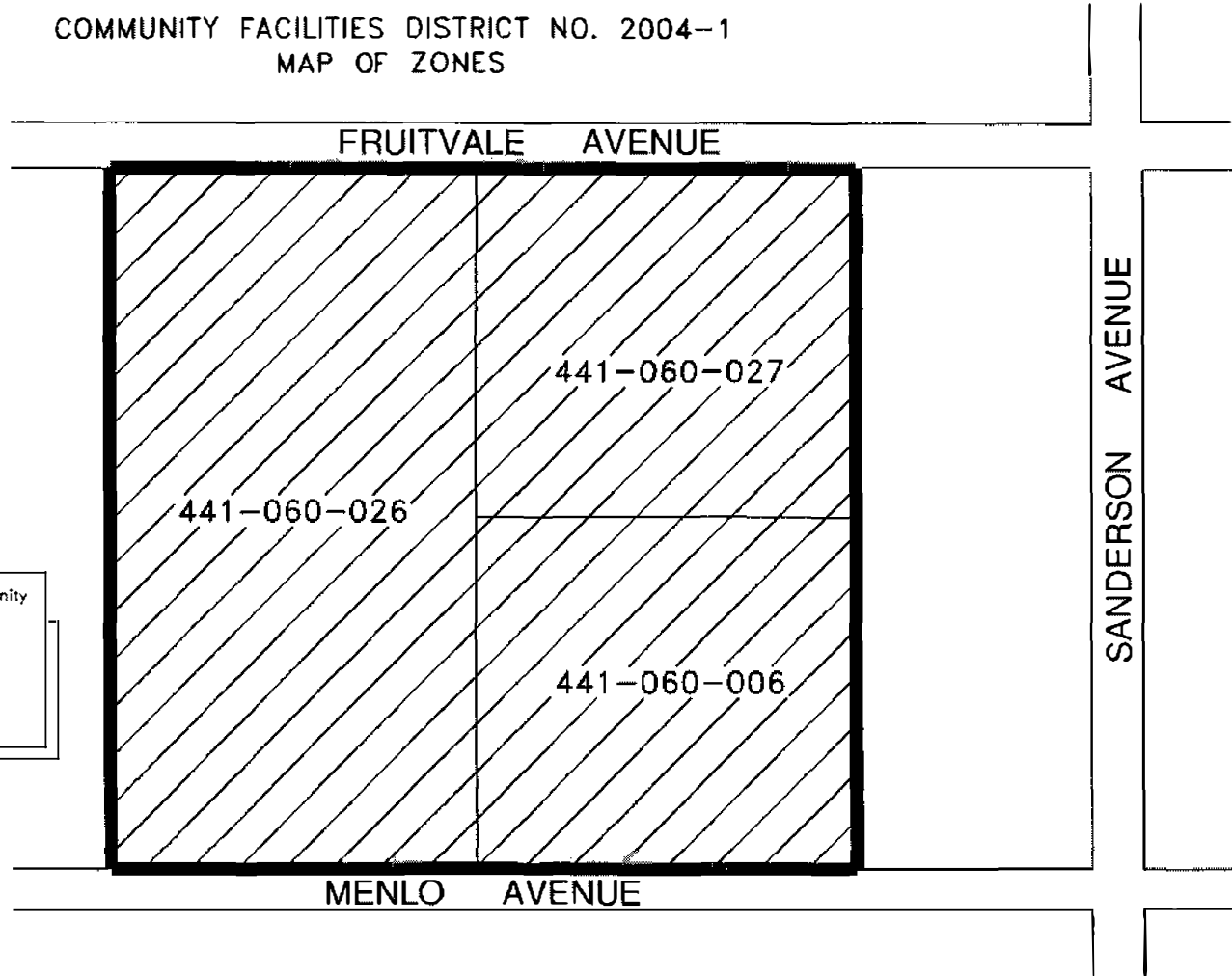
# EXHIBIT A

## HEMET UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 2004-1 MAP OF ZONES



### LEGEND

	Proposed Boundaries of Community Facilities District No. 2004-1
	Assessor Parcel Line
	Zone 1



Reference is hereby made to the Assessor maps of the County of Riverside for an exact description of the lines and dimensions of each lot and parcel.

PREPARED BY  
DAVID TAUSSIG & ASSOCIATES, INC.

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**APPENDIX C**  
**APPRAISAL REPORT**

**APPRAISAL REPORT**

**HEMET UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2004-1, ZONE 1  
SPECIAL TAX BONDS, SERIES 2004**

Prepared for:

**HEMET UNIFIED SCHOOL DISTRICT  
2350 W Latham Avenue  
Hemet, CA 92545-3632**

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

October 2004

# Harris Realty Appraisal

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October 20, 2004

Mr. Richard Beck  
Assistant Superintendent  
HEMET UNIFIED SCHOOL DISTRICT  
2350 W. Latham Avenue  
Hemet, CA 92545-3632

Re: ***Community Facilities District No. 2004-1, Zone 1  
Special Tax Bonds, Series 2004***

Dear Mr. Beck:

In response to your authorization, we have prepared a self-contained appraisal report that addresses all of the property within the boundaries of Community Facilities District No. 2004-1 (CFD No. 2004-1), Zone 1. This appraisal includes an estimate of Market Value of all the property subject to special tax. This land is under the ownership of one merchant builder, the Meeker Companies, under the name Hemet/San Jacinto Ventures, LLC. Within the boundaries of Zone 1 are 38.2 gross acres under site development with 76 near finished lots and 75 future lots in a raw condition. The 76 near finished lots have been improved with three completed model homes and 20 production dwellings that are under construction.

According to the specific guidelines of the California Debt and Investment Advisory Commission (CDIAC), each ownership is valued in bulk, representing a discounted value to that ownership as of the date of value. The aggregate bulk value of the land represents Market Value of the property subject to special tax within Community Facilities District No. 2004-1, Zone 1.

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of October 15, 2004.

**ELEVEN MILLION ONE HUNDRED THOUSAND DOLLARS**

**\$11,100,000**

**Zone 1, owned by Hemet/San Jacinto Ventures, LLC, contains 38.20 gross acres, proposed for 151 residential dwellings. The developer has provided engineering site cost for the development. These costs total \$6,990,000 or \$46,291 per lot. The estimated value includes \$2,781,118 of facilities from this bond issue. Proceeds from CFD No. 2004-1 are to fund Eastern Municipal Water District (EMWD) facilities and Hemet Unified School District (HUSD) facilities. The value estimate is contingent upon the funding of CFD No. 2004-1, Zone 1.**

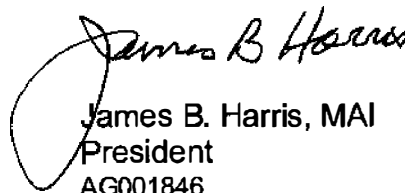
The self-contained report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This report has been prepared for the Hemet Unified School District for use in the sale of Community Facilities District No. 2004-1 bonds. The intended users of this report are the Hemet Unified School District, its Underwriter, Legal Counsel, Consultants, and potential bond investors. This appraisal has been prepared in accordance with and is subject to the requirements of The Appraisal Standards for land secured financing as published by the California Debt and Investment Advisory Commission; the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Foundation; and the *Code of Professional Ethics* and the *Standards of Professional Appraisal Practice* of the Appraisal Institute.

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

Respectfully submitted,



Berri J. Cannon  
Vice President  
AG009147



James B. Harris, MAI  
President  
AG001846



Hemet Unified School District  
Community Facilities District No 2004-1  
Zone 1



Cawston Ave

Subject

Sanderson Ave

Hemlock Valley Ave

Hemlock Ave

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## SUMMARY OF FACTS AND CONCLUSIONS

<b>EFFECTIVE DATE OF APPRAISAL</b>	October 15, 2004
<b>DATE OF REPORT</b>	October 20, 2004
<b>INTEREST APPRAISED</b>	Fee Simple Estate, subject to special tax liens
<b>LEGAL DESCRIPTION AND OWNERSHIP</b>	<p>Final Tract Map No. 28558, Lots 1 through 6 and 9 through 78; and Tentative Tract Map No. 31295, Lots 1 through 75; proposed for 151 dwelling units.</p> <p><i>Hemet/San Jacinto Ventures, LLC</i></p>
<b>SITE CONDITION</b>	<p>Tract 28558, proposed for 76 dwelling units, is under site and unit construction. Three model homes are complete. In addition 20 homes are under construction in the framing stage. The remaining 53 lots within Tract 28558 are in near finished lot condition.</p> <p>Tract 31295, proposed for 75 dwelling units, is in a raw site condition.</p> <p>As of October 15, 2004, the subdivision known as Menlo Estates had released 59 homes for sale and all homes were reported as reserved, with cash deposits.</p>
<b>HIGHEST AND BEST USE</b>	Continued development of a 151-unit subdivision known as Menlo Estates with single family residences ranging from 1,896 square feet to 2,639 square feet with a minimum lot size of 7,200 square feet.
<b>VALUATION CONCLUSION</b>	<b>\$11,100,000 MARKET VALUE</b>

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## INTRODUCTION

### Purpose of the Report

The purpose of this appraisal is to estimate the Market Value for the *fee simple estate, subject to special tax liens* for all the property within Community Facilities District No. 2004-1, Zone 1, located in the City of Hemet, in Riverside County. The purpose of this appraisal is to estimate the "As Is" Market Value of the land under the ownership of the merchant builder.

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

### Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for Community Facilities District bond financing purposes only. The subject property is described more particularly within this report. The bonds are issued pursuant to the Mello-Roos Community Facilities District Act of 1982. The maximum authorized bond indebtedness for CFD No. 2004-1, is \$250,000,000.

### Client and Intended Users of the Report

This report was prepared for our client, Hemet Unified School District. The intended users of the report include HUSD, it's Underwriter, Consultants, and potential bond purchasers.

### Scope of the Assignment

According to the CDIAAC guidelines, the total value conclusion includes the "As Is" estimate of Market Value for the land subject to special tax within the boundaries of CFD No. 2004-1, Zone 1. This is a fully documented self-contained appraisal report. Any lands designated for park, open space or civic uses within this CFD and not subject to special tax are not included in this assignment.

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The property is valued in its "As Is" condition as of the date of value. As of the date of value, the 76 lots in Phase 1 are in a near finished condition with three completed models and 20 production dwellings under construction. All 75 future lots in Phase 2 are in a raw condition.

We have analyzed the subject property based upon the proposed uses and our opinion of its highest and best use. We have searched for sales of residential land to estimate the value of the properties.

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

1. Gathered and analyzed demographic data from sources including the California Department of Finance (population data), Employment Development Department of the State of California (employment data), City of Hemet (zoning information, building permit trends), Hemet/San Jacinto Valley Chamber of Commerce (local demographic trends), Meyers Group (housing sales, inventory levels, and absorption), and sales personnel of comparable projects (market trends of individual home sales). Subject information was gathered from the developer/ builder and their consultants.
2. Inspected the subject's neighborhood and reviewed proposed product and similar products for consideration of Highest and Best Use of the proposed lots.
3. Gathered and analyzed comparable merchant builder land sales within the Hemet market areas, and residential detached unit sales, within the subject's primary and secondary market areas. Data was gathered from sources including, Comps.com, brokers, appraisers, builders active in the area and developers within the Riverside County area. Where feasible, data were confirmed with both the buyer and seller. The data gathered are presented on individual data sheets within this report.

## **Date of Value and Report**

The opinions of Market Value expressed in this report are stated as of October 15, 2004. The date of the appraisal report is October 20, 2004.

# HRA

## Date of Inspection

The subject property was inspected on numerous occasions, with the most recent on October 10, 2004.

## Property Rights Appraised

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

## Property Identification

CFD No. 2004-1, Zone 1 is comprised of 38.2± acres identified as Assessor Parcel Nos. 441-060-006, 026 and 027. These parcels are located on the north side of Menlo Avenue, and the south side of Fruitvale Avenue, approximately one-half mile west of Sanderson Avenue. The subject consists of one-half raw vacant land as of the date of value, while one-half of the subject is in near finished lot condition with dwellings under construction.

## Legal Description and Ownership

The table below identifies lot and tract, and ownership.

CFD No. 2004-1 Zone 1		
<u>Tract No.</u>	<u>Lot Nos.</u>	<u>Ownership</u>
28558	1-6 & 9-78	Hemet/San Jacinto Ventures, LLC
31295	1-75	Hemet/San Jacinto Ventures, LLC

## Property History

### *Tract 28558*

A Grant Deed dated May 20, 2003 Document No. 361147, indicates title is vested in Hemet/San Jacinto Ventures, LLC, a Delaware Limited Liability Company. Hemet/San Jacinto Ventures LLC, acquired the property from Menlo Fruitvale LLC on May 20, 2003 for \$1,617,335 in an all cash transaction. Reportedly the Hemet/San Jacinto Ventures, LLC is an entity formed by Geobilt Homes, Inc., and Troxler Residential Ventures III, LLC, are joint venturing the Menlo Estates development. The buyer mapped the 19.10-acre parcel into 78 number lots. Lots 7 and 8 are utilized for a drainage retention facility to mitigate off-street drainage flows through the project. The buyer reported negotiations for

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the site began in February 2003. On August 8, 2003 Commercial Bank of California made a \$4,000,000 development loan on the property.

John Crean Homes purchased the property on June 1, 2001 from SV Investments for \$1,000,000. Purchase price was based upon \$12,500 per paper lot based on a tentative tract map configured for 80 lots. A new tentative tract map was submitted to the City of Hemet. John Crean Homes transferred the property to Menlo Fruitvale LLC on March 26, 2003. John Crean owned Menlo Fruitvale LLC.

## *Tentative Tract 31295*

Tentative Tract 31295 is an assemblage of two 10-acre parcels (gross). A Grant Deed dated February 13, 2004, Document No. 104694, indicates title is vested in Hemet/San Jacinto Ventures, LLC, a Delaware Limited Liability Company. Hemet/San Jacinto Ventures, LLC, acquired the property from Gary Howard and Marlene Howard, husband and wife as joint tenants, on February 13, 2003 for \$660,000 in an all cash transaction. Public documents indicate that Gary Howard and Marlene Howard acquired the property from Barbara L. Proffitt on July 31, 2002 for \$337,000. The site includes the north 10 acres of Tentative Tract 31295. The buyer reported negotiations for the site began in May 2003.

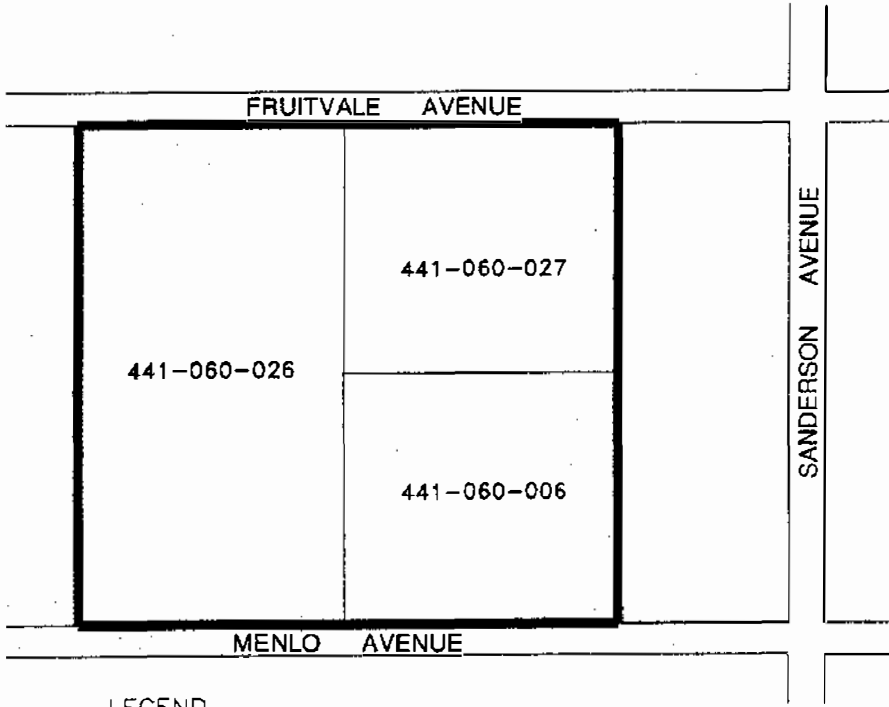
A Grant Deed dated August 18, 2003 Document No. 632118, indicates title was transferred to H. Menlo-8 Partners. The property was acquired from John Etchart, DVM, as Executor of the Will of Sylvia Shirko. The purchase price was reported at \$493,000. On August 19, 2003 H. Menlo-8 Partners transferred the property to Hemet/San Jacinto Ventures, LLC, a Delaware Limited Liability Company, a related party. Mr. Meeker, buyer, indicated that upon recordation, the 49,325 square foot parcel designated as Remainder Parcel of Tentative Tract 31295 will be deeded back to the heirs of the Sylvia Shirko estate. The buyer reported negotiations for the site began in May 2003.

The combined indicated assemblage price is \$1,153,000. The buyer has an approved tentative tract map in place subdividing the site into 75 usable residential lots. It is noted that a required retention basin has been relocated to Tract 28558. Lots 7 and 8 of Tract 28558 are utilized for a drainage retention facility.

Boundaries of CFD No. 2004-1, Zone 1

SHEET 1 OF 1

PROPOSED BOUNDARIES OF  
HEMET UNIFIED SCHOOL DISTRICT  
COMMUNITY FACILITIES DISTRICT NO. 2004-1  
COUNTY OF RIVERSIDE  
STATE OF CALIFORNIA



LEGEND

	Proposed Boundaries of Community Facilities District No. 2004-1
	Assessor Parcel Line
	Assessor Parcel Number

PREPARED BY  
DAVID TAUSSIG & ASSOCIATES, INC.

(1) Filed in the office of the Secretary of the Governing Board  
this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_

Phil Pendley  
Secretary of the Governing Board

(2) I hereby certify that the within map showing the  
proposed boundaries of Community Facilities  
District No. 2004-1, Riverside County,  
State of California, was approved by the Governing  
Board at a regular meeting thereof, held on  
this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ by  
its Resolution No. \_\_\_\_\_

Phil Pendley  
Secretary of the Governing Board

(3) Filed this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, at  
the hour of \_\_\_\_ o'clock \_\_\_\_ m, in Book \_\_\_\_  
of Maps of Assessment and Community Facilities Districts  
of page \_\_\_\_ and as Instrument No. \_\_\_\_\_, in  
the office of the County Recorder of Riverside  
County, State of California.

County Recorder of Riverside County

Reference is hereby made to the Assessor  
maps of the County of Riverside for an  
exact description of the lines and  
dimensions of each lot and parcel.

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## Definitions

### **Market Value<sup>1</sup>**

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

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

### **Fee Simple Estate<sup>2</sup>**

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

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

The Market Value included herein, reflects the value potential buyers would consider given the special tax lien of Community Facilities District No. 2004-1, Zone 1.

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

<sup>2</sup> *The Dictionary of Real Estate Appraisal*, Third Edition, published by The Appraisal Institute, 1993, Page 140



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## **Retail Value**

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

## **Blue-Top Graded Parcel**

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

## **Finished Site<sup>3</sup>**

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

## **Mass-Graded Parcels**

Mass-graded parcel with utilities stubbed to the site and perimeter streets completed.

## **Assumptions and Limiting Conditions**

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

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

### **Contingencies of the Appraisal**

The appraisal is contingent upon the successful issuance and funding of Community Facilities District No. 2004-1, Zone 1 through the Hemet Unified School District. The special tax formula was prepared on behalf of the Hemet Unified School District by David Taussig & Associates, tax consultant.

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<sup>3</sup> Ibid, Page 334

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The Market Value estimate reported in this report reflects a portion of the funding for the infrastructure improvements and capital facility fees from the proceeds of Community Facilities District No. 2004-1, Zone 1. The public improvements and fees include EMWD facilities and HUSD facilities. This bond issue will fund only \$2,781,118 of the possible CFD facilities. If the CFD is not funded and/or the amount or timing of the facilities should change, the value opinion stated herein could change.

The infrastructure costs and grading costs have been provided for our review by the master developer and prepared by the engineering firm of GW Engineering. It is assumed that all conditions for site development as indicated in the Conditions of Approval are included in the infrastructure costs. *A specific assumption of this appraisal report is that the costs are accurate.*

The individual parcel sizes have been calculated by the engineering firm of GW Engineering. We have relied on their calculations in estimating taxable acreage. Our value estimate is, in part, based on the accuracy of this information.

## **Assumptions and Limiting Conditions**

No responsibility is assumed by your appraisers for matters that are legal in nature. No opinion of title is rendered, and the property is appraised as though free of all encumbrances and the title marketable. No survey of the boundaries of the property was undertaken by your appraisers. All areas and dimensions furnished to your appraisers are presumed to be correct.

The date of value for which the opinions of Market Value are expressed in this report is October 15, 2004. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

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

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

The appraisers have not been provided with geotechnical or soils reports or environmental reports for the subject property. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of Highest and Best Use. It is a specific contingency and assumption of this report and values

# HRA

included herein that all required environmental studies and/or permits have been completed on the property and that the land can be developed as proposed.

The appraisers have been provided with two preliminary title reports for CFD No. 2004-1, Zone 1. The title reports were prepared by Chicago Title Company and dated June 6, 2003, and August 25, 2004. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the subject properties.

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

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

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

The appraisers assume no responsibility for economic or physical factors that may occur after the date of this appraisal. The appraisers, in rendering these opinions, assume no responsibility for subsequent changes in management, tax laws, environmental regulations, economic, or physical factors that may or may not affect said conclusions or opinions.

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

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

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

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

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

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

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

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

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

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

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

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

James B. Harris is a Member, and Berri J. Cannon is an Associate Member, of the Appraisal Institute. The Bylaws and Regulations of the Institute require each Member and Associates to control the uses and distribution of each appraisal report signed by such Member or Associates. Except as hereinafter provided, possession of this report, or a copy of it, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraisers and in any event only with properly written qualification and only in its entirety. **The Hemet Unified School District and its Underwriter may publish this report in the Official Statement for this Community Facilities District.**

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

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

**The liability of Harris Realty Appraisal and the appraisers responsible for this report is limited to the client only and to the fee actually received by the appraisers. Further,**

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

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

## AREA DESCRIPTION

The following section of this report will summarize the major demographic and economic characteristics such as population, employment, income and other pertinent characteristics for the Southern California region, Riverside County, the City of Hemet and the subject market area.

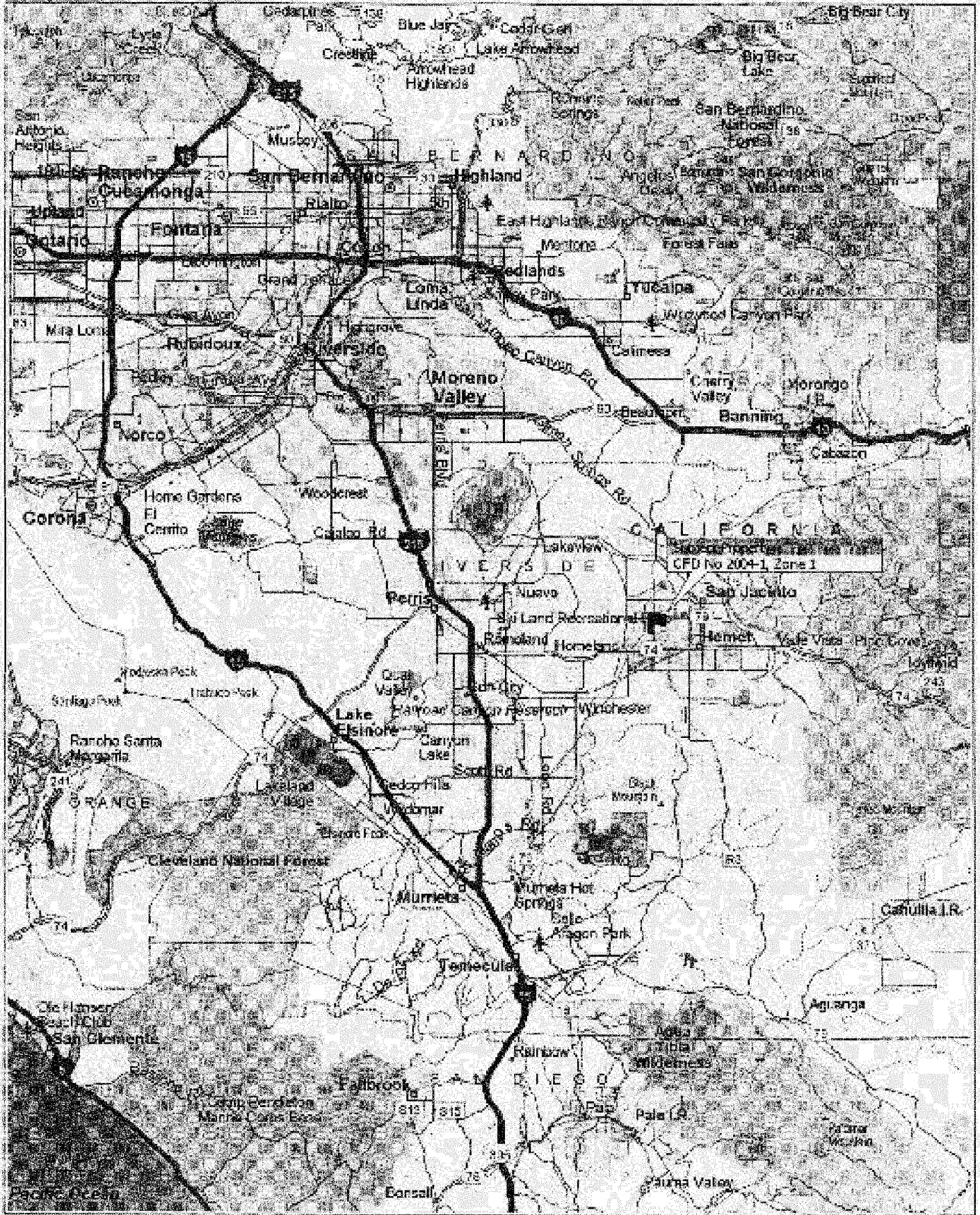
### Southern California Regional Overview

The Southern California region, as defined in this report, encompasses six individual counties including Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura Counties. The Southern California region extends from the California-Mexico border on the south to the Tehachapi mountain range on the north and from the Pacific Ocean on the west to the California-Arizona border on the east. The region covers an estimated 38,242 square miles and embodies a diverse spectrum of climates, topography, and level of urban development. Please refer to the following page for a location map.

### **Population**

The Southern California region has added about 7.2 million new residents since 1980 as indicated in the table shown on page 15. According to the California Department of Finance, the most recent data available indicate that as of January 2004, the regional population stood at over 20.6 million. If the region were an individual state, it would rank as one of the most populous in the nation.

Since 1981, annual population gains from natural increase and immigration have ranged from a low of 131,400 persons in 2002 up to 568,645 persons in 1989. These figures represent annual gains of 0.7% to 3.5%. During the past five years, the population of the six-county Southern California region grew by 0.7% to 1.8% per annum.





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As of January 2004 the population of the six-county area stood at 20,602,700 persons. Looking toward the future it is estimated that the region's population will continue to climb as new residents seek out the southern California area. During the economic downturn from 1992 through 1996, and continuing through 2004, the population growth rate declined compared to the growth experienced in the late 1980s.

**Population Trends  
1980-2004**

Year	Population	Average Annual Change	
		Number	Percent
1980 <sup>1</sup>	13,359,673	—	—
1981	13,571,785	212,112	1.6%
1982	13,868,390	296,605	2.2%
1983	14,179,920	311,530	2.2%
1984	14,483,010	303,090	2.1%
1985	14,795,200	312,190	2.2%
1986	15,189,600	394,400	2.7%
1987	15,613,100	423,500	2.8%
1988	16,027,400	414,300	2.7%
1989	16,460,900	433,500	2.7%
1990	17,029,545	568,645	3.5%
1991	17,334,500	304,955	1.8%
1992	17,648,800	314,300	1.8%
1993	17,892,100	243,300	1.4%
1994	18,081,400	189,300	1.1%
1995	18,220,500	139,100	0.8%
1996	18,371,600	151,100	0.8%
1997	18,556,100	184,500	1.0%
1998	18,914,300	358,200	1.9%
1999	19,255,700	341,400	1.8%
2000	19,592,700	337,000	1.8%
2001	19,759,300	166,600	0.9%
2002	19,890,700	131,400	0.7%
2003	20,249,800	359,100	1.8%
2004	20,602,700	352,500	1.7%

<sup>1</sup> April 1, 1980, 1990, and 2000, all other years January 1  
Source: California Department of Finance. 5/04

The future rate of growth will depend on a number of factors that may dramatically affect the region. Some of the major factors include availability of developable land, availability of water, national economic climate, and public policy toward growth and the assimilation of a large number of new foreign immigrants. The continued growth of the

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population within the region, even during periods of economic slow down, provides a positive indicator as to the desirability of the Southern California region.

## Employment

In conjunction with the population growth, a key indicator of the region's economic vitality is the trend in employment. The most common measure of employment growth is the change in non-agricultural wage and salary employment. The table below illustrates the non-agricultural wage and salary employment trends in Southern California.

**Southern California Region  
Employment Trends  
1983-2003<sup>1</sup>**

Year	Employment	Average Annual Change	
		Number	Percent
1983	5,691,000	—	—
1984	5,960,100	269,100	4.7%
1985	6,198,400	238,300	4.0%
1986	6,384,500	186,100	3.0%
1987	6,664,000	279,500	4.4%
1988	6,903,800	239,800	3.6%
1989	7,096,000	192,200	2.8%
1990	7,215,200	119,200	1.7%
1991	7,038,200	(177,000)	(2.5%)
1992	6,834,400	(203,800)	(2.9%)
1993	6,731,100	(103,300)	(1.5%)
1994	6,768,600	37,300	0.6%
1995	6,901,000	132,400	2.0%
1996	7,020,400	119,400	1.7%
1997	7,236,600	216,200	3.1%
1998	7,585,400	348,800	4.8%
1999	7,789,100	203,700	2.7%
2000	7,918,200	129,100	1.7%
2001	8,015,300	97,100	1.2%
2002	8,003,100	(12,200)	(0.2%)
2003	8,023,800	25,700	0.3%

<sup>1</sup> 2002 benchmark

Source: Employment Development Department

4/04

In the Southern California region, average annual non-agricultural employment has grown from 5,691,000 jobs in 1983, to a peak employment of 8,015,300 in 2001. Employment declined to 8,003,100 in 2002. This decline was mostly caused by a 40,100 job decrease in Los Angeles County. In 2003, employment climbed to a new record level,

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8,028,800. This was in spite of Los Angeles County losing additional 36,700 jobs. This represents an increase of over 440,000 new jobs over the past five years.

As the economy entered into an economic recession during the latter part of 1990, employment growth slowed. The average annual gain in 1990 was approximately 119,200 jobs or 1.7%. In 1992 when the full weight of the recession was felt, area employment suffered the highest annual decline in jobs registered in the last decade, losing nearly 204,000 jobs or a percentage decrease of 2.9%. This was followed by further employment declines of 103,300 jobs in 1993. It appears that by the middle of 1994, the economic recovery finally began to take hold in the Southern California region. The employment data for 1994 indicated a slight increase of 37,300 jobs or 0.6% for 1994. The adverse employment issues experienced in the prior three years had abated. The annual average employment for 1995 exhibited a gain of 132,400 new jobs or a 2.0% increase, and for 1996 an estimated 119,400 new jobs were added. In 1997, total non-agricultural employment stood at 7.2 million, finally exceeding the prior high in 1990. As of year-end 2002, employment was over 8.0 million. Forecasts prior to September 11, 2001, indicate that job growth would continue to be positive in 2001 and increase moderately over the next one to two years. However, with the terrorist attack on the United States and the conflict with Iraq, most economists are saying we were in a flat to slightly declining economy, during 2002 and first half of 2003, but that we began recovery during the second half of 2003. 2003 showed a small increase over the previous high mark in 2001.

Employment among the individual industry categories reflects some fundamental regional changes in the economy during the past decade. The level of mining activity in Southern California continues to steadily decline as reflected in the consistent decrease in mining employment. Construction employment, as of 1989, was at a high level in response to the level of construction activity that had occurred in the region during the past five years. During the period from 1991 through 1994, construction employment declined in response to decreased residential and commercial construction activity. From 1994 through 2004, as the economy rebounded, residential construction increased bringing back more than the construction jobs lost during the recession.

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Total manufacturing employment in the region has exhibited little gain from the levels recorded in 1980. Due to the high labor, land, and capital costs in most of the Southern California region, some manufacturing firms have expanded or relocated their manufacturing operations outside of the area.

The Southern California economy, which historically depends heavily on aerospace and defense related employment, was dealt a double blow. First from the reduction of the space program and reduced government defense spending which affected manufacturers and suppliers, but also from the closure of several military bases which has a ripple effect throughout the local economy. Areas heavily dependent on military spending will be impacted as the units are deployed abroad.

The finance, insurance, and real estate ("FIRE") employment category grew rapidly as the economy recovered from the 1981-1982 national recession. As the economy entered a new recessionary cycle, the FIRE employment sector exhibited little growth from 1991 through 1995. Some of the manufacturing and aerospace jobs permanently displaced from the economy were slowly being replaced with administrative, marketing and research employment. It is reasonable to assume that similar stagnant growth in this area will be experienced during the current economy.

The employment group that has contributed most to the employment growth in the region is the service sector. Since 1980, the majority of all new jobs have been created in the service category. The service sector was the leader in new job growth during the years that followed the economic recovery from the 1990 recession. This sector will experience layoffs due to its tie to the travel and tourism industries, due to the terrorist attack.

Government employment tends to mirror the growth of the population that it services. It is expected that government employment will grow at a rate similar to the area population. The future employment growth in the Southern California region is expected to continue but at a level moderately lower than recent years. Factors that will affect employment growth include the direction of the national economy, wage levels, housing

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prices, and population trends. Given the national disaster of September 11, 2001, government should not experience layoffs; on the contrary, growth particularly in the defense sector should occur. However, the California deficit has negatively impacted both state and local government employment.

## **Riverside County**

Riverside County consists of 24 individual cities and numerous unincorporated communities. Riverside County is typically grouped with adjacent San Bernardino County to form the Riverside-San Bernardino Metropolitan Statistical Area ("MSA"). This area is commonly called the Inland Empire. Riverside County is bounded by Orange County to the west, San Bernardino to the north, the state of Arizona to the east, and San Diego County to the south.

The major urbanized areas are located in the western portion of the County. The major incorporated cities include the cities of Riverside, Corona, and Moreno Valley. These areas were the most active areas for new growth during the mid 1980's until the recession took hold during 1990. The area which encompasses Lake Elsinore, Murrieta, Menifee Valley and Temecula has also experienced rapid growth since the mid 1980's. The areas that have experienced the most active growth during the 1980s also suffered the most during the lengthy recession. However, since 1996, residential activity has increased due to downsizing of product with more affordable pricing, and the general improvement in the regional economy.

## **Population**

Riverside County has more than doubled its population, adding approximately 882,488 new residents since 1980 as illustrated in the following table. As of the 2000 Census, the countywide population stood at 1,545,387 residents. The 2004 estimate by the State of California indicates that the County had 1,776,700 residents on January 1, 2004. Annual population gains, from natural increase and immigration, have ranged from less than 18,500 persons in 1997 up to 72,087 persons in 2000. From 1991 to 1997, the

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rate of growth in population declined moderately each year. Recent gains of 26,100 to 72,087 persons represent annual changes of 1.8% to 4.9%.

The future rate of growth within the County will depend on a number of factors. Some of the major factors include availability of developable land, availability of water, national and regional economic climate and public policy toward growth.

The areas within the County that will continue to experience the largest share of the new population growth will be the Corona-Riverside area and the area between Lake Elsinore, Sun City and Temecula.

## Riverside County Population Trends 1980-2004

Year	Population	Average Annual Change	
		Number	Percent
1980	663,199	—	—
1885	815,100	30,380	4.6%
1990	1,170,413	71,063	6.0%
1991	1,223,200	52,787	4.5%
1992	1,268,800	45,600	3.7%
1993	1,304,400	35,600	2.8%
1994	1,332,000	27,600	2.1%
1995	1,356,600	28,600	1.8%
1996	1,381,900	26,300	1.9%
1997	1,400,400	18,500	1.3%
1998	1,447,200	46,800	3.3%
1999	1,473,300	26,100	1.8%
2000	1,545,387	72,087	4.9%
2001	1,609,400	64,013	4.1%
2002	1,644,300	34,900	2.2%
2003	1,705,500	60,200	3.7%
2004	1,776,700	71,200	4.2%

April 1, 1980, 1990, 2000; all other years January 1.

Source: California Department of Finance, U.S. Census 5/04

## Employment

Employment data for Riverside County are compiled for the entire MSA, which includes San Bernardino and Riverside Counties. These counties have become a diverse economy, with manufacturing, construction and tourism the major industry groups. In

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conjunction with the rapid population growth experienced in the past two decades, the employment base has continued to grow and diversify. The Inland Empire's unemployment rate is moderately above the Southern California average and similar to the State. The higher unemployment rate is due to the seasonal nature of agricultural employment in the area. The following exhibit illustrates the area's unemployment compared to California as of August 2004. Unemployment rates have declined about 50% from the recession high of 12.2% in 1993.

	<u>Labor Force</u>	<u>Unemployment</u>
California	17,742,300	5.7%
Inland Empire	745,800	5.8%

The most common measure of employment growth is the increase in nonagricultural employment. Nonagricultural employment is outlined in the following exhibit. During the 1980's the Inland Empire's employment base expanded rapidly as the area moved away from its military and government oriented employment base to a more fully diversified economy.

Nonagricultural employment has grown from an annual average of 443,100 jobs in 1983 to 1,087,700 jobs in 2003. This represents an increase of over 640,000 new jobs created in San Bernardino and Riverside Counties during the past 20 years. As the economy rebounded from the national recession in 1981-1982, annual employment gains jumped by more than 30,500 new jobs in 1984. Job gains peaked in 1990 with 44,400 new jobs. During the economic recession of 1991 to 1996, increases ranged from 4,400 to 28,600 new jobs representing a 0.6% to 3.8% gain per annum. During the last five years, job increases have ranged from 28,700 new jobs to a record increase of 56,700 new jobs in 1992. The percentage increases have ranged from 2.8% to 6.4%. The table on the following page illustrates the annual employment trends from 1983 through 2003. In August 2004, the non-agricultural employment had increased to 1,100,700, a 2.2% increase from August 2003.

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Employment among the individual industry categories reflects changes in the Inland Empire economy during the past decade. Construction employment gains generally mirror the regional economy. In response to the high level of construction activity that occurred in the County during the period from 1984 to 1989, construction employment reached nearly three times the level recorded in 1982. From 1992 through 1995, construction employment declined in response to decreased building activity. The 2003 levels were more than double the 1993 low.

**San Bernardino-Riverside MSA<sup>1</sup>**  
**Employment Trends**  
**1983-2003**

Year	Employment	Average Annual Change	
		Number	Percent
1983	443,100	-	-
1984	473,600	30,500	6.9%
1985	514,100	40,500	8.6%
1986	551,400	37,300	7.3%
1987	588,700	37,300	6.8%
1988	625,100	36,400	6.2%
1989	668,200	43,100	6.9%
1990	712,600	44,400	6.6%
1991	718,800	6,200	0.9%
1992	729,600	10,800	1.5%
1993	734,000	4,400	0.6%
1994	751,300	17,300	2.4%
1995	779,900	28,600	3.8%
1996	803,500	23,600	3.0%
1997	841,400	37,900	4.7%
1998	882,200	40,800	4.8%
1999	938,900	56,700	6.4%
2000	991,500	52,600	5.6%
2001	1,029,100	37,600	3.8%
2002	1,057,800	28,700	2.8%
2003	1,087,700	29,900	2.8%

<sup>1</sup> Data revised due to changes in research methodology, 2003 Benchmark  
 Source: Employment Development Department 5/04

The number of manufacturing jobs in the Inland Empire has increased over 45% from the levels recorded in 1991. However, manufacturing jobs declined 5.5% from the 2000 high of 120,000 jobs. Due to the high labor and capital costs in Los Angeles and Orange Counties, manufacturing firms have expanded or relocated some of their



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manufacturing operations to Riverside and San Bernardino counties to take advantage of the labor force and lower land costs.

Transportation and public utilities employment tend to mirror population growth. In the Inland Empire the finance, insurance and real estate ("FIRE") category is still a small segment of the employment picture.

A significant number of the new jobs created in the last 15 years have been created in the service sector. The service sector will continue to play a major role in employment growth during the next few years. Government employment is a major employment sector in the Inland Empire due to the rapid growth.

The future employment growth in the Inland Empire is expected to continue as more firms relocate to the area to take advantage of lower land prices and the abundant labor pool. Factors that will affect employment growth include the direction of the state and national economy, and consumer confidence. Due to the terrorist attack on September 11, 2001 and the Iraq conflict, consumer confidence has been negatively impacted. The nation's current situation is completely new and a brand new economic climate is ahead of us. At best, current projections of the impact to Riverside County are mere speculation. However, most economists report that we were in a flat economy in 2002 and the first half of 2003, but that we began recovery during the second half of 2003.

## **Income**

The average household income in Riverside County is estimated to be \$62,250. The median household income stands at \$47,282. These figures are moderately below the Southern California region average. The lower income level is due to the lower wages in agriculture, manufacturing, service and government employment. The household income distribution for Riverside County is illustrated in the following table.

## County of Riverside Household Income Distribution 2004

Income Range	Households	Percent <sup>1/</sup>
Less than \$15,000	79,042	13.69%
\$15,000 - \$24,999	67,697	11.73%
\$25,000 - \$34,999	69,922	12.11%
\$35,000 - \$49,999	87,873	15.22%
\$50,000 - \$74,999	111,171	19.26%
\$75,000 - \$99,999	71,410	12.37%
\$100,000 - \$149,999	58,793	10.19%
\$150,000 or more	31,316	5.43%
Total	577,224	100.0%
Median Household Income		\$47,282
Average Household Income		\$62,250

<sup>1/</sup> Percent of total distribution  
Source: Claritas 6/04

### Retail Sales

Retail demand continues to be fueled by the growth in population as outlined previously. For Riverside County, taxable retail sales have increased from \$3.9 billion in 1985 to over \$7.1 billion by 1994 and to over \$14.2 billion by 2002. During the past four years, annual changes have ranged from an increase of \$768 million in 1998 to an increase of \$1.5 billion in 2000, as shown on the next table. Data for 2003 are not available as of the date of this report.

The increases in retail sales are due to the exceptionally high County population growth rates experienced during the period from 1983 through 1990. During the period from 1991 through 1993, retail sales were stagnant due to the economic recession. From 1994, and continuing throughout 2002, there was a significant rebound in retail sales. Retail sales for 2002 were reportedly flat on a statewide basis. Official state reports for 2003 will not be released until later this year. In the future, retail sales growth should mirror the population growth in the County.

## Riverside County Retail Sales Trends 1/ 1985-2002

Year	Taxable Retail Sales (000's)	Average Annual Change	
		Number (000's)	Percent
1985	\$3,974,400	\$319,032	8.7%
1986	\$4,338,628	\$364,228	9.2%
1987	\$4,868,644	\$530,016	12.2%
1988	\$5,486,787	\$618,143	12.7%
1989	\$6,257,222	\$770,435	14.0%
1990	\$6,596,974	\$339,752	5.4%
1991	\$6,380,890	(\$207,084)	(3.1%)
1992	\$6,684,107	\$294,217	4.6%
1993	\$6,716,783	\$32,596	0.5%
1994	\$7,131,216	\$414,513	6.2%
1995	\$7,435,414	\$304,196	4.3%
1996	\$8,003,061	\$567,647	7.6%
1997	\$8,508,010	\$504,949	6.3%
1998	\$9,276,448	\$768,438	9.0%
1999	\$10,685,724	\$1,409,278	15.2%
2000	\$12,190,474	\$1,504,750	14.0%
2001	\$13,173,281	\$982,807	8.1%
2002	\$14,250,753	\$1,077,472	8.2%

1/ Taxable Retail Sales Total (not adjusted for inflation)  
Source: State Board of Equalization 2/04

### Transportation

Riverside County is served by a major airport, Ontario International, located in adjoining San Bernardino County. Several major airlines have flights into Ontario, while international flights can be booked out of Los Angeles International Airport.

A network of freeways links most urbanized areas of the County. The major north-south arterials are the Corona (15) and Escondido (215) Freeways. The Pomona Freeway (60) provides east-west access to the Los Angeles area and the desert areas of Riverside County. The Riverside Freeway (91) provides access to Orange County.

### Environmental Concerns

The Endangered Species Act of 1973 precludes any activity that constitutes a taking of a federally listed endangered species except by permit. Numerous areas within Riverside County have been identified as containing potential habitat of the Stephen's

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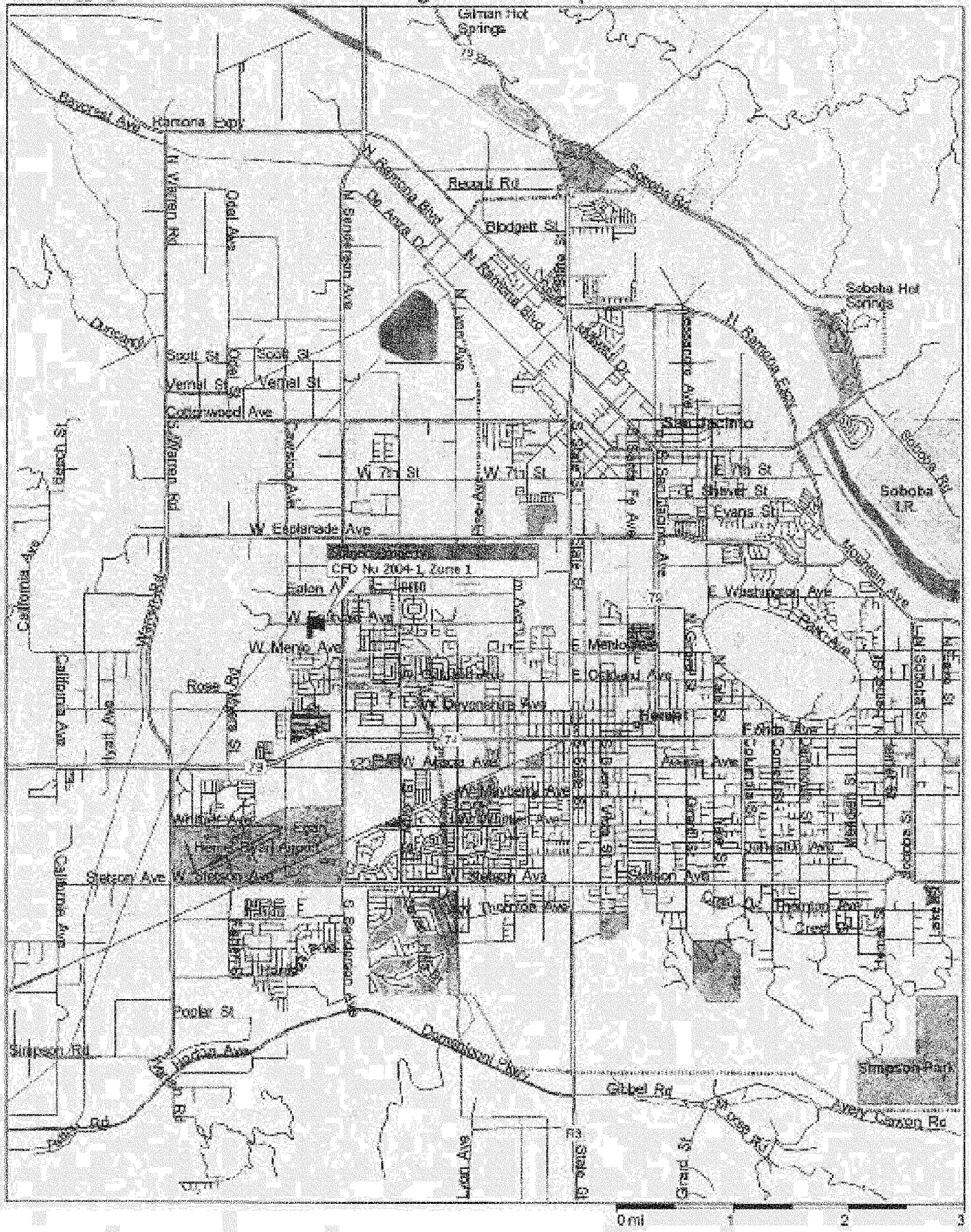
Kangaroo Rat, a listed species. The evidence of habitation by this rat has resulted in delays or substantial revisions of proposed developments. The California Department of Fish and Game is currently reviewing the status of additional wildlife for possible inclusion on a list of endangered or threatened species. A MSHCP fee of \$1,651 per dwelling unit is imposed for housing built in the future.

In summary, the region exhibited very strong population and employment growth during the 1980 to 1989 period. The recession of the early 1990s had significantly slowed population growth and resulted in overall job losses from 1990 to 1995. Over the past seven years, as the economy recovered, population and employment growth have been stronger than during the prior growth years of the 1980s. The long-term outlook for the region remains positive as the elements of abundant affordable land and labor still exist. Future growth will, however, continue to be affected by the trends in the overall economy. Riverside County's economic environment should follow a path similar to that of the other Southern California counties.

## Hemet

Hemet is located in the San Jacinto Valley about 35 miles southeast of the City of Riverside. Hemet began in 1887 with the formation of the Lake Hemet Water Company and the City was incorporated in 1910. Hemet began growing in the 1960s with the development of "Sierra Dawn," the nation's first mobile home subdivision. Other mobile home developments and other retirement developments soon followed and Hemet has been primarily known as a "retirement" community ever since. However, over the past five years Hemet has attracted families that have also considered the Temecula area for home purchases.

Hemet is located along State Highway 74 and State Highway 79. San Jacinto is north of Hemet. The Soboba Indian Reservation is northeast and unincorporated Riverside County surrounds the two cities.



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## Population

As of the 2000 Census, Hemet had a population of 58,812 or a 62.9% increase over its 1990 population. The State of California estimated the 2004 population at 63,800 for the City of Hemet. When the nearby communities of Valle Vista and East Hemet and the City of San Jacinto are included the population increases to almost 133,000 people.

## Income Levels

The cities of Hemet and San Jacinto have income distribution significantly lower than the countywide distribution. The median household income for the Hemet/San Jacinto area is \$32,650, which is much lower than the countywide figure. The average household income in the area is \$43,616, which is significantly lower than the countywide figure. This is due to the high number of retired persons in this area.

### Cities of Hemet/San Jacinto Household Income Distribution

Income Range	Households	Percent 1/
Less than \$15,000	10,736	20.80%
\$15,000 - \$24,999	9,322	18.06%
\$25,000 - \$34,999	7,510	14.55%
\$35,000 - \$49,999	8,442	16.36%
\$50,000 - \$74,999	7,979	15.46%
\$75,000 - \$99,999	4,021	7.79%
\$100,000 - \$149,999	2,556	4.95%
\$150,000 - \$249,999	1,041	2.02%
Total	51,607	100.0%
Median Household Income		\$43,616
Average Household Income		\$32,650

Source: Claritas 10/04

## Retail Sales

The City generated retail sales of \$652,880,000 or 4.6% of the County's total retail sales. The retail sales increased 45.7% from the area's 1998 level.



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## Employment

The Hemet/San Jacinto area has an employment level of 28,660 persons. The unemployment rate for this area is 8.1%, higher than the countywide rate. The top ten employers in this area are shown on the following table.

### Top Ten Employers

Hemet Valley Medical District	2,000
Hemet Unified School District	1,563
Deutsch Engineering	575
Eastern Municipal Water District	521
San Jacinto Unified School District	400
City of Hemet	300
Hilton Hotels Reservation Center	300
Mt. San Jacinto College	250
Wal-Mart	245
San Francisco Home Care	210

Source: Hemet/San Jacinto C of C 2000-2001

## Transportation

Hemet/San Jacinto is served by State Highway 74 and State Highway 79. These intersect with the Ramona Expressway and the I-215 Freeway in Riverside County to provide access to most other parts of Southern California. In addition, rail service is provided by the Burlington Northern railway.

## Immediate Surroundings

The subject property is located in the northwest section of the City of Hemet. The Menlo Estates development is bordered to the north by Fruitvale Avenue, to the south by Menlo Avenue and to the east by Cawston Avenue. Primary land uses in the immediate surroundings include vacant land and single family tract homes.

Existing single family tract homes are situated in the southern and western portions of the area, south of Menlo Avenue and east of Cawston Avenue. Adjacent to the south of the subject is an existing detached neighborhood built in mid-1990. The

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homes typically range between 1,100 and 2,900 square feet in size with selling prices from the mid-\$200,000 to mid \$350,000.

At the northeast corner of Menlo Avenue and Cawston Avenue is a new elementary school known as Cawston Elementary School. A church is located easterly of the subject at Sanderson Avenue. North of Fruitvale Avenue. KB Home has a new 196 subdivision in the grading stage. The KB Home project will provide direct competition for the subject property.

Within three miles of the subject are several neighborhood shopping centers providing all standard retail shops and restaurants. Access to the 215 Freeway is approximately seven miles to the west. The Hemet-Ryan Airport is situated approximately one mile south of the subject, but does not appear to negatively impact the subject's development.

## Conclusion

The regional and local economy has experienced economic growth beginning in the 3<sup>rd</sup> quarter of 2003, due largely to increased consumer and business spending. The anticipated continued strength should bring renewed job growth. Inflation is reported to remain non-existent, which should keep mortgage rates from rising too steeply while the economy gains strength. The Inland Empire's housing boom has shown no signs of slowing, although there appears to be pockets of "reasonable" sales in the outlying areas. Builders in Riverside County increased demand for new housing permits and pulled 17,508 residential permits during the first six months of 2004.

The Riverside-San Bernardino metropolitan area saw an increase of 28.0% in the median home price from a year ago and 5.0% in the number of sales in August 2004. The median home price in Riverside County was \$334,000 in August 2004. San Bernardino's median home price was \$261,000. The subject's immediate market area has continued to experience good demand for detached single family homes on 5,000 to 7,000 square foot lots. The proposed product for the District is within the demand



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range. As long as the economy continues to grow, employment opportunities improve closer to the subject area, and the cities to the more urbanized areas become even more expensive areas to live and operate a business in, the San Jacinto Valley and the District is anticipated to continue to experience growth.

## SITE ANALYSIS

### General

The subject property is identified as Zone 1 of CFD No. 2004-1. The subject is divided into two tract maps. The west half of the property is Tract No. 28558. This tract is improved with 76 lots in a near finished condition. In addition, there are three completed model homes and 20 production units under construction. The east half is identified as Tentative Tract No. 31295. This tract is proposed for 75 lots and is in a raw condition. Please refer to page 4 for a map on the CFD.

### Location

The subject parcel is located on the north side of Menlo Avenue, about one-half mile west of Sanderson Avenue. Fruitvale Avenue abuts the north side of the subject property.

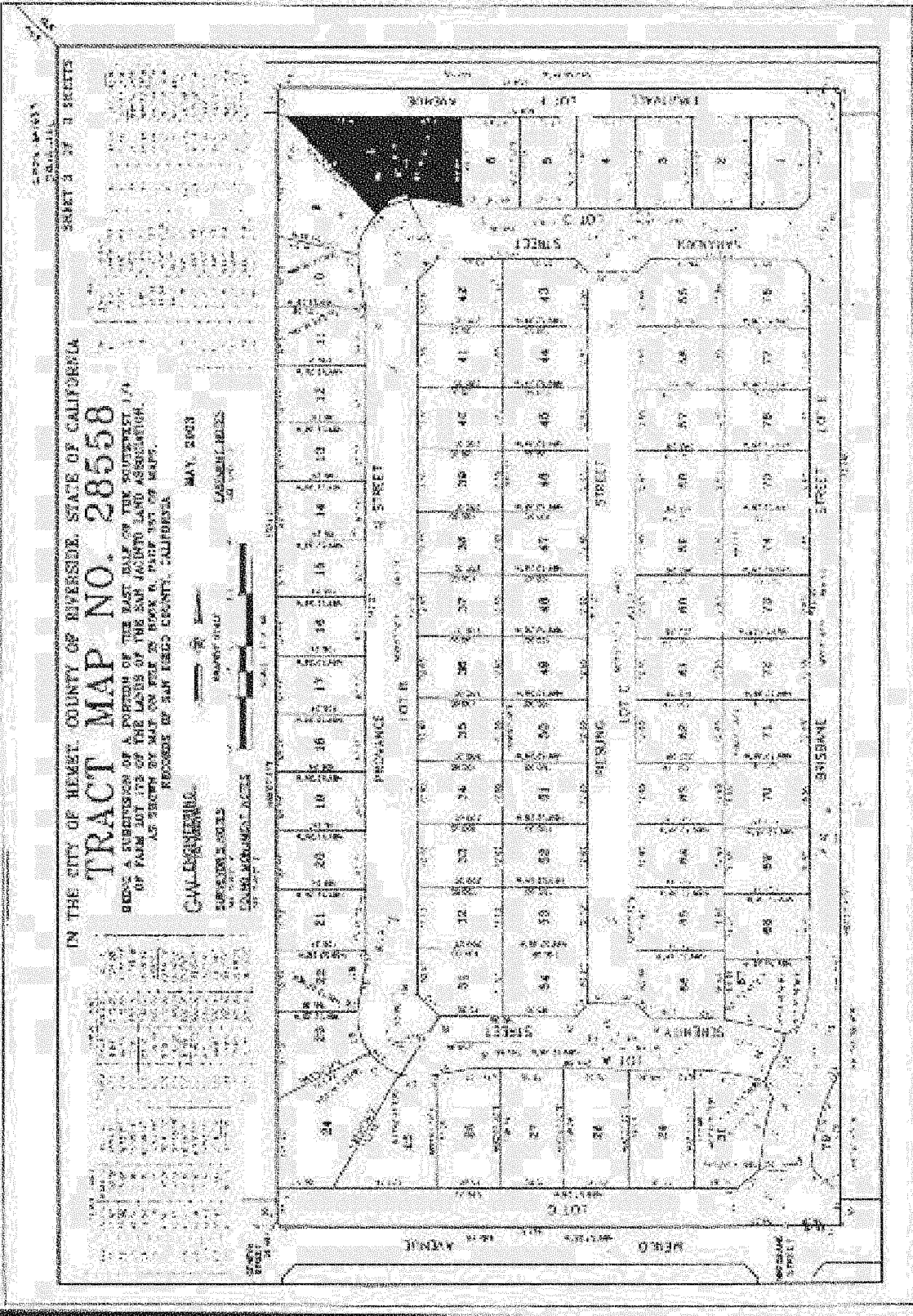
### Current Site Condition

As of the date of value of this appraisal, Tentative Tract No. 31295 is in a completely raw, vacant condition. Final Tract No. 28558 is in a near finished lot condition with three completed model homes and 20 production dwellings under construction. Tract No. 28558 has 78 lots, but Lots 7 and 8 will be improved with a flood retention basin. Menlo Avenue is a paved road, with full street improvements. Fronting Tentative Tract No. 31295, is a paved street, but without curbs, gutters or sidewalks.

### Size and Shape

The overall shape of the subject property is rectangular and contains 38.2± gross acres. Zone 1 of CFD No. 2004-1 has been subdivided into two tracts. Please refer to the table on page 35, which summarizes the two tracts. The following two pages show copies of the tract maps.

# Tract No. 28558



IN THE CITY OF HERMET, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA  
**TRACT MAP NO. 28558**

BEING A SUBDIVISION OF A PORTION OF THE EAST HALF OF THE SOUTHWEST 1/4  
 OF FARM LOT 175 OF THE LANDS OF THE SAN JACINTO LAND ASSOCIATION,  
 AS SHOWN BY MAP ON FILE AS BOOK 9, PAGE 187 OF SAID  
 RECORDS OF SAN JACINTO COUNTY, CALIFORNIA

MAY, 1923

C.W. LEWIS

LANDS

RECORDS



SCALE 1" = 40'

APPROXIMATE

BOUNDARIES

AS SHOWN ON

RECORDS

OF SAID

COUNTY

CALIFORNIA

AS SHOWN ON

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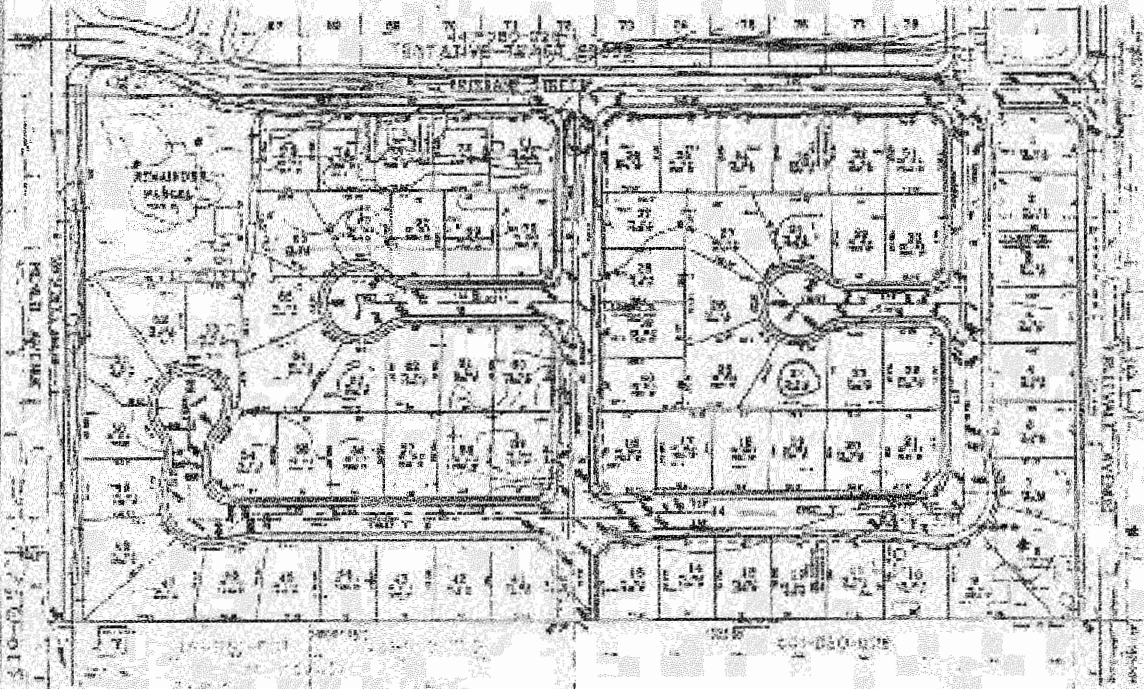
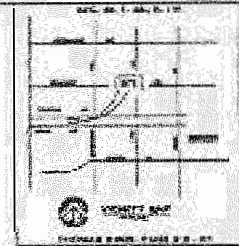
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# IN THE CITY OF HEMET, CALIFORNIA TENTATIVE TRACT MAP NO. 31295



**EXPLANATION**

1. ALL LOTS SHOWN ON THIS MAP ARE SUBJECT TO THE EASEMENTS AND RESTRICTIONS SET FORTH IN THE DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS ATTACHED HERETO AS A PART OF THIS TENTATIVE TRACT MAP.

**LEGEND**

1. LOTS: 1.00 ACRES OR MORE - SHOWN WITH A THICK BOUNDARY LINE

2. LOTS: LESS THAN 1.00 ACRES - SHOWN WITH A THIN BOUNDARY LINE

3. LOTS: LESS THAN 0.10 ACRES - SHOWN WITH A DOTTED BOUNDARY LINE

4. LOTS: LESS THAN 0.05 ACRES - SHOWN WITH A DASHED BOUNDARY LINE

5. LOTS: LESS THAN 0.02 ACRES - SHOWN WITH A DOTTED BOUNDARY LINE

6. LOTS: LESS THAN 0.01 ACRES - SHOWN WITH A DASHED BOUNDARY LINE

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Tentative Tract No. 31295



CONSULTING REAL ESTATE APPRAISERS  
34

	PREPARED BY: _____ DATE: _____	<b>GW ENGINEERING</b> 1000 N. 10TH ST. SUITE 100 HEMET, CA 92343 (951) 922-1111	SHEET NO. _____ TOTAL SHEETS _____ DATE OF ISSUE _____	CITY OF HEMET, CALIFORNIA <b>TENTATIVE TRACT MAP NO. 31295</b>
	CHECKED BY: _____ DATE: _____			SCALE: _____ DRAWN BY: _____ DATE: _____

# HRA

## CFD 2004-1, Zone 1

<u>Tract No.</u>	<u>Gross Size Acres</u>	<u>Number of Lots</u>
28558	19.1	76
TTM 31295	19.1	75

### Soils and Geology

A soils report was not provided. Tract No. 28558 has recently been graded and the lots are in a near finished condition. As City requirements include submission of soils reports and grading plans, issuance of permits, and required inspections, this appraisal assumes that no soils condition exists which would preclude or significantly alter development of the site as proposed.

Tentative Tract No. 31295 is generally level and is in a raw vacant condition. A soils report was not provided. Typical soil conditions in the area are underlain by upper dry, loose and compressible silty fine sand and fine to medium coarse sand. The site is not located within a State of California Alquist Priolo Fault Rupture Hazard Fault Zone. It is not located within a Special Study Zone. It appears from the tract maps that the streets will handle drainage. A required retention basin, per Condition Number 76 of the Conditions of Approval dated November 18, 2003, has been relocated to Tract No. 28558. Lots 7 and 8 of Tract No. 28558 are utilized for a drainage retention basin.

### Topography and Drainage

Zone 1 of CFD No. 2004-1 is mostly level, although TTM No. 31295 has some undulation in its current raw condition. No lots will have view premiums when graded.

Drainage is via natural sheet flow and percolation. Currently, there are no storm drains serving TTM No. 31295, but the surrounding area has storm drains as a part of the recent development. Storm drain capacity for Tract No. 28558 were constructed during the development process. During our inspection of the site, we observed no drainage problems that would not be cured by the proposed development of the site.

# HRA

## Zoning

The site is zoned R-1-7.2 per the City of Hemet Planning Department. The R-1 development standards are as follows:

Minimum parcel size	7,200 square feet
Setbacks Required	
Front	20 feet
Side (each)	Five feet for each story
Street side	10 feet
Rear	15 feet
Maximum Height Limit	35 feet

Tract Map No. 28558 recorded on August 21, 2003, Document No. 41633. Tentative Tract Map No. 31295 was approved on November 18, 2003. The conditionally approved tentative map will expire 2 years after the approval date or by November 18, 2005.

As proposed, the subject project appears to be a legally conforming use. The subject property is in conformance with all zoning requirements, and is assumed to be in conformance with all governmental regulations.

## Access and Circulation

The subject property is located on the north side of Menlo Avenue, west of Sanderson Avenue. Menlo Avenue is currently dedicated 80 feet wide and paved with one lane of traffic in each direction, with curbs, gutters and sidewalks. All interior streets will be dedicated 60 feet wide and paved with one lane in each direction.

Sanderson Avenue extends northerly and southerly from the subject and connects with Highway 74 and the Ramona Expressway. Both Highway 79 and the Ramona Expressway connect to the I-215 Freeway about 10 miles west of the subject.

# HRA

## Easements

The appraisers have been provided with two preliminary title reports for Zone 1 of CFD No. 2004-1. The title reports were prepared by Chicago Title Company and dated June 6, 2003 and August 25, 2004.

There did not appear to be any easements, restrictions or conditions that would adversely impact the value of the subject property. It is a specific assumption of this appraisal that all easements and encumbrances affecting the property are not detrimental to value. The title reports did not include a Notice of Lien for CFD No. 2004-1. The property is encumbered by a \$9,655,000 Deed of Trust.

## Utilities

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

Electricity	Southern California Edison
Water	Eastern Municipal Water District
Gas	Southern California Gas Company
Sewer	Eastern Municipal Water District
Telephone	Verizon
Police	City of Hemet
Fire	City of Hemet

## Earthquake, Flood Hazards, and Nuisances

The subject property, as of the date of valuation, was not located in a designated Earthquake Study Zone as determined by the State Geologist. However, all of Southern California is subject to seismic activity. The subject property is located in a Zone "X" flood designated area according to Federal Emergency Management Agency Community Panel No. 060253-0005D effective date August 19, 1997. This designation references an area that is outside the 500-year flood plain. Flood insurance is not required. No other nuisances or hazards were observed on physical inspection of the subject properties as of the date of value. A small strip of land along Menlo Avenue is located in a Zone A. No flood base elevation determined. This designation does not negatively impact any of the subject lots.

# HRA

## **Environmental Issues**

The subject parcel has been dry farmed or vacant for many years. The property is reportedly not impacted by any negative environmental issues. A Phase I report for Tract No. 28558 was submitted. No environmental issues were noted.

## **Taxes and Special Assessments**

The three individual assessor parcels have property taxes as shown on the following table. APN 441-060-026 has recently been reparcelized into 76 individual parcels, all with the same assessment and taxes. The new parcel numbers are 441-810-001 to 030; 441-811-001 to 024; and 441-812-001 to 024. All of the parcels have an assessed value of \$20,730 and a tax of \$258.60. These amounts are combined for the APN 441-060-026 assessed value and tax shown below. Pursuant to Proposition 13, passed in California in 1978, current Assessed Values may or may not have any direct relationship to current Market Value. Real estate tax increases are limited according to Proposition 13 to a maximum of 2% per year plus bonds, if any. If the property is sold, real estate taxes are normally subject to modification to the then current Market Value.

Proposed CFD No. 2004-1, Zone 1 will have special taxes ranging from \$1,631 to \$1,865 depending on house size. The total tax rate will not exceed 2.0%.

The office of David Taussig & Associates estimates the Special Taxes on the undeveloped residential land within Zone 1 of CFD No. 2004-1. The Special Taxes for the individual homes are also estimated. The estimated land values are based, in part, on the Special Taxes estimated for the ultimate homeowner. Within the Addenda of this report, is a summary of the zone 1 special taxes as estimated by David Taussig & Associates for the developed homes.



## HUSD

### Community Facilities District No. 2004-1, Zone 1 Assessed Values and Taxes

APN	A.V. Land A.V. Imps. A.V. Total	R.E. Taxes
441-060-006	\$276,400 \$20,600 \$297,000	\$3,335.16
441-060-026	\$1,575,480 \$0 \$1,575,480	\$19,653.60
441-060-027	\$271,984 \$71,306 \$343,290	\$3,825.40
Total		\$26,814.16

The subject property falls within the taxing jurisdiction of the Riverside County Assessor's office. The applicable tax rate area is 06-219. The published annual tax rate in this area is 1.059040%. In addition to the base tax rate, there is additional bond indebtedness related to school district debt service, water districts, and flood control district debt service.

The overall effective tax rate for the proposed homes will be approximately 2.0% of our appraised base values. This tax burden is common for Riverside County where tax rates in new home communities typically range from 1.50% to 2.00%. A survey of the subject market area revealed that special Assessment Districts or CFDs encumber most of the competing residential subdivisions. There does not appear to be a great deal of resistance to the special assessments that do not increase the overall tax rate significantly above 2.00% of Assessed Value.

# HRA

## IMPROVEMENT DESCRIPTION

### General

The appraisers have not been provided with plans and specifications for the proposed improvements within Zone 1 of CFD No. 2004-1. Floor plans from the sales brochure were reviewed. For purposes of this appraisal, we have assumed that the quality of construction, functional utility, amenities and features will meet market demand for new product in the subject's market area.

The following table represents the proposed unit sizes, unit distribution and current base sales prices of the proposed homes as indicated by the builder.

**Menlo Estates  
CFD No. 2004-1, Zone 1  
Summary of Proposed Product**

<u>Plan</u>	<u>Home Size (SF)</u>	<u>Stories</u>	<u>No. Units</u>	<u>10/15/04 Base Sales Price</u>	<u>Base Price Per SF</u>
1	1,896	1	16	\$300,000	\$152.95
2	2,377	2	40	\$315,000	\$128.31
3	2,555	2	55	\$425,000	\$173.28
4	2,639	2	40	\$332,000	\$121.25

Based on the above distribution of floor plans, the average size unit is 2,367 square feet. The Menlo Estates development will offer 7,200 square foot minimum lot sizes. Lot premiums have not been estimated by the builder. This project will not have an HOA.

As previously discussed the subject property has been graded to near finished lot condition on 76 lots, but remains in a raw condition on the remaining 75 lots. Three model homes are completed and 20 production homes were under construction.

Menlo Estates has been in an active sales program since July 2004. As of the date of value, 59 homes have been released for sale and all homes are reported as reserved. Sales prices have increased approximately 5% over the three month time frame.

# HRA

The following is a list of some of the general construction specifications for the detached single-family homes of Menlo Estates.

## **Construction**

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

## **Foundations**

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

## **Structural Frame**

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

## **Roofs**

Roofs are of concrete tile.

## **Windows**

Vinyl dual glazed windows.

## **Floor Covering**

Floor coverings are wall-to-wall carpet in all living areas. Entries are of ceramic tile and kitchen, bathrooms and laundry room are of vinyl.

## **Interior Finish**

Custom trowelled ceiling and painted drywall.

## **Heating/HVAC**

Energy efficient central air conditioning and gas forced air heating.

## **Kitchens**

Kitchens will be equipped with maple cabinets and ceramic tile countertops. Each kitchen will offer white-on-white appliances and include a gas cooktop, self-cleaning oven, microwave oven, and dishwasher.

## **Bathrooms**

Master bathrooms will have double sinks with cultured marble vanities, wood cabinets, and separate shower and tub. Secondary bathrooms will have cultured marble vanities, combination tub/shower, and wood cabinets.

## **Garage**

Garage doors are two car sectional steel roll-up with concrete driveways.

# HRA

## **Fireplace**

One fireplace per dwelling.

## **Laundry Facilities**

Interior laundry rooms

## **Options**

Numerous options and upgrades will be available including flooring, cabinet, and countertop upgrades. Most options and upgrades provided at competing, similar quality developments will be offered.

Front landscape and irrigation system are also included.

## **Conclusion of the Improvements**

Based on a review of the plans and specification and physical inspection of the model homes, the floor plans offered at Menlo Estates are similar to products selling in the subject's market place and should meet buyers expectations.

## **Functional Utility**

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

## **Remaining Economic Life**

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

## HIGHEST AND BEST USE

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

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.<sup>4</sup>

It is implied in these definitions that determination of highest and best use takes into account the contribution of a specific use to the community and community development goals as well as the benefits of that use to individual property owners. Hence, in certain situations, the highest and best use of land may be for parks, greenbelts, preservation, conservation, wildlife habitats, and the like. A use that does not meet the needs of the public will not meet the highest and best use criteria.

The determination of highest and best use, therefore, requires a separate analysis for the land as legally permitted, as if vacant. Next, the highest and best use of the property with its improvements must be analyzed to consider any deviation of the existing improvements from the ideal. "The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be: legally permissible, physically possible, financially feasible, and maximally productive. These criteria are often considered sequentially."<sup>5</sup> The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

### Legally Permissible Use

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

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<sup>4</sup> *The Appraisal of Real Estate*, 10th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 275.

<sup>5</sup> *Ibid.*, p. 280.

# HRA

According to the City of Hemet Planning Department, the subject tracts are within the Residential designated zone of the City of Hemet, which allows for development of single-family detached homes on a minimum lot size of 7,200 square feet. Tract No. 28558 recorded in September 2003. Tentative Tract No. 31295 is expected to record by the end of the year.

## **Physically Possible Use**

Zone 1 of CFD No. 2004-1 is generally rectangular in shape and contains approximately 38.2 gross acres according to the tract maps. The site has a flat to slightly undulating topography and natural watercourses along the south line. The Menlo Estates development is a natural extension of existing nearby residential developments, located south of Menlo Avenue and the new subdivisions north of Fruitvale Avenue.

All normal utilities are available to serve the subject site. For Tract No. 28558 utility and street improvements along with finish lot grading have been completed as of the date of value. Tentative Tract No. 31295 is in a raw condition. The property is generally bounded by residential development and undeveloped land. Access is considered to be adequate via Sanderson Avenue, Ramona Expressway, Washington Road, State Highway 74, and the I-215 Freeway. This appraisal considers the benefits and/or improvements that are to be funded by CFD No. 2004-1, Zone 1.

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

# HRA

## Financial Feasibility and Market Conditions

The financial feasibility of the development of the subject property is based on its ability to generate sufficient income and value in excess of the costs to develop the property to its highest and best use. Please refer to the Valuation section of this report, which gives support to the financial feasibility of Zone 1 of CFD No. 2004-1.

### **General Market Conditions – Riverside County**

The Inland Empire housing market has continued to increase in demand and price over the past several years. As in the past, the increased housing prices in Orange, San Diego and Los Angeles counties have encouraged buyers to look at alternative locations for homes. The Riverside County housing prices as of June 2004 were up 33% over the same month last year. The median detached new home price in the region hit a record high of \$401,408 in June 2004, according to a survey by the Meyers Group. San Bernardino County's \$318,158 record high was also achieved. Sales volume is still at historic highs for the month, however, half of the submarkets saw a decline in absorption rates over a year ago.

Riverside County builders sold 5,928 detached new homes during the second quarter of 2004, a 9.3% increase from one year ago. Builders within Riverside County sold 33,016 new single family detached homes and 6,137 condominiums during 2003. This represents an increase of 26.4% for detached product and 17.6% for attached product over 2002. The bulk of the detached homes sold in Riverside County during the second quarter of 2004 are priced under \$550,000 and comprise 85%± of the total sales. Sales of homes priced between \$300,000 and \$550,000 continue to see the most activity, comprising 70%± of the detached market. The number of active detached projects in Riverside County increased by 13%± during the second quarter of 2004. The majority of active projects located in Riverside County are located in the Desert submarket.

Standing detached inventory decreased from the second quarter of 2004 compared to the second quarter of 2003 to 12 units in Riverside County. At the current

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sales rate, there is less than a one-week supply of detached homes. Detached total unsold inventory consisted of 22,381 units at the end of the second quarter of 2004, which is up from 12,404 units last year. At current sales rates, this level of inventory equates to an 11.0 month supply, which is up 3 months over last year.

Home prices continued to increase during the first quarter of 2004, however in general, have moderated during the second quarter of 2004. Interviews with builders in the Inland Empire anticipate significantly smaller price increases per phase and in some cases do not anticipate any increase throughout 2004. Some tracts have begun offering incentives and concessions to buyers. The higher prices have prompted more people to sell their homes which is bringing the supply and demand into better balance.

A nationwide study by the Meyers Group found that in 2002 and projecting several years, of the top 10 markets in the Country for new homes, four were in California and the top was the Inland Empire. The markets were compared by looking at the ratio of job growth to building permit activity. According to the recent Chapman University report, the Inland Empire should receive twice as many new jobs during 2004 as they did in 2003. During 2003 Riverside and San Bernardino counties added about 17,000 new jobs which should increase to 34,000 new jobs. Mortgage rates will likely increase during the year and there will likely be a continuing of home price moderation during the second half of 2004.

According to an interest rate survey published weekly in The Los Angeles Times, the typical 30-year, fixed rate conforming loan was between 5.50% and 5.75% as of the date of this report. Mortgage rates have been in the 5.25% to 5.75% range over the past year, following more than a year of rates in the 6% range. While a slight increase in rates may impact demand, we do not anticipate a significant drop in demand as long as rates remain near or below the 8% level.



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## **Riverside – Central Submarket**

The subject is situated in the Central submarket region, which accounted for 1,201 detached home sales during the second quarter of 2004, or about a 20.2% market share of the Riverside County market. The median base price in the Central submarket has increased considerably over the past year to \$318,260, a 39.3% increase. Although it is the least expensive submarket in Riverside County with a price per square foot ratio of \$146.00, the price per square foot in the subject's submarket increased by 25.9%, and the average size of a detached home increased by 10.7%.

During the second quarter of 2004, the subject's submarket did not sell any new detached homes priced under \$250,000; 369 detached homes priced between \$200,000 and \$299,999 were sold; 457 detached homes priced between \$300,000 and \$349,999 were sold; 185 detached homes priced between \$350,000 and \$399,999 were sold; 107 detached homes sold between \$400,000 and \$449,999; and 53 homes sold over \$450,000. There were no attached products that sold in the subject's submarket.

Within the Central submarket there are 63 active projects, which are 6 more than the beginning of the quarter. The subject's market area reports 0 units of unsold standing inventory and 11 unsold units are under construction. This is less than a one day absorption time for the units under construction. Total inventory, which includes units built, under construction and future construction, totals 4,179 units which equates to a 10.3 month supply at the current sales rate. One year ago total inventory was at 3,353 units, but the months to absorb based on last year's sales rate was 18.5 months.

## **Feasibility**

It is our opinion, after surveying the competitive projects and analyzing the pricing, design, location differences and other pertinent factors, that the subject property should experience good absorption. The subject's sales office reports that in the first three months of sales, 59 dwellings have been released and all 59 dwellings are reserved with

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cash deposits. This 20± unit per month absorption has occurred without a model complex.

Clearly, most agree that we have been in a slowly recovering economy. However, prior to 2003, the economy had slowed considerably and the housing market was still doing well with continued significant price increases through mid-2004, along with good absorption. Given the diversification in the Southern California economy, pent up demand for housing and relative affordability of the subject products, we tend to side with the economists and experts that are predicting a steady housing market in Central Riverside County.

The table on the following page reports the prices and absorption of six near-by currently selling residential developments. Absorption has been good ranging from 7.7 units per month to 23.4 units per month. The subject is projected to range from an average base price of approximately \$300,000 to \$332,000 per dwelling unit according to the Menlo Estates sales office. Based on current sales of competing projects, sales rates could range from 8.0 to 12.0 units per month per project.

## **Maximally Productive**

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

**Hemet/San Jacinto Valley  
Comparable Residential Project Summary  
Detached Single Family Homes  
October 15, 2004**

<u>No.</u>	<u>Project Location</u>	<u>Units</u>	<u>Lot Size</u>	<u>Base Price</u>	<u>Unit Size</u>	<u>Price/ Sq. Ft.</u>	<u>No. Sold Start Dt.</u>	<u>Overall Mo. Abs.</u>
1	<b>Menlo Estates</b>	151	7,200	\$300,000	1,896	\$158.23	59 Jul-04	18.5
	Meeker Companies			\$315,000	2,377	\$132.52		
	Hemet			\$325,000	2,555	\$127.20		
	<b>Subject</b>			\$332,000	2,639	\$125.81		
2	<b>Autumn Ridge</b>	196	7,200	\$349,990	2,255	\$155.21	10 Oct-04	23.4
	KB Home			\$367,990	2,469	\$149.04		
	Hemet			\$374,990	2,677	\$140.08		
				\$384,990	3,012	\$127.82		
			\$392,990	3,117	\$126.08			
3	<b>Sundance</b>	395	7,200	\$360,105	2,105	\$171.07	130 May-03	7.7
	Jeffery Homes			\$368,272	2,236	\$164.70		
	Hemet			\$405,085	2,418	\$167.53		
				\$432,217	2,745	\$157.46		
4	<b>Woodcrest</b>	170	7,200	\$269,990	1,865	\$144.77	169 May-03	9.9
	CNH Homes			\$281,990	2,002	\$140.85		
	Hemet			\$301,990	2,400	\$125.83		
				\$310,990	2,669	\$116.52		
5	<b>Solana</b>	126	7,200	\$325,000	2,201	\$147.66	103 Jan-04	11.5
	Greystone			\$325,000	2,356	\$137.95		
	San Jacinto			\$341,000	2,719	\$125.41		
				\$350,000	3,091	\$113.23		
6	<b>Meadowbrook</b>	211	7,200	\$312,990	1,992	\$157.12	34 Jul-04	10.7
	Greystone Homes			\$337,990	2,692	\$125.55		
	San Jacinto			\$366,990	3,102	\$118.31		

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Given the steady demand for residential product in Riverside County and the Hemet/San Jacinto market area, it is our opinion that development as proposed provides the highest land value and is, therefore, maximally productive.

## Conclusion

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

After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the subject property, as vacant and as improved, is for residential development similar to that proposed for the subject property. The project appears to have the location, features, and pricing structure to obtain a good sales rate under normal financing and market conditions.

### **As Vacant**

After reviewing the alternatives available and considering this and other information, it is these appraisers' opinion that ultimate development of a single-family detached for-sale development, similar to the current proposed product, is considered the highest and best use of the property.

### **As Improved**

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

## VALUATION METHODOLOGY

### Basis of Valuation

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

### Valuation Approaches

Three basic approaches to value are available to the appraiser:

#### **Cost Approach**

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

#### **Income Approach**

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

#### **Direct Comparison Approach**

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

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**Static Residual Analysis** is used to estimate the merchant builder land value. From the estimated base retail home price, all costs associated with the home construction including direct construction costs, indirect deduction of costs, the residual figure is an estimate of the merchant builder land value.

The Direct Comparison Approach for residential land and the Static Residual Analysis is used in valuing the fee simple interest. The Income Approach is typically used when appraising income producing properties. This approach is not applicable in the valuation of land as land is not typically held to generate monthly income, but rather purchased to construct an end product that may or may not generate income. The Cost Approach is not an appropriate tool in the valuation of land.

The subject property is under site construction, model home construction and production home construction by the builder. The products being built by the builder are considered the highest and best use of the property and are in high demand by the Hemet homebuyer. Therefore the partially completed improvements are considered to add value. The units under construction are valued based on a conservative estimate of their completion. This percentage is applied to the average base sales price for each floor plan for an indication of value. The near finished lots are valued by the Direct Comparison Approach. The appraisers have been provided with the costs to bring all of the land from its "As Is" condition as of the date of value to a finished lot condition with all development fees paid. The costs have been provided by the builder. The analysis will provide an aggregate value based on the development condition of the 151 lots. The costs to complete the site work will be deducted from the aggregate value.

## VALUATION OF RESIDENTIAL LAND

### General Information

All of the subject lots are anticipated to be developed by the merchant builder or a joint venture with the merchant builder. The actual sales price of a particular parcel is always considered the best indication of value, assuming the transaction is arm's length, current and meets the definition of Market Value. In the case of the subject parcel, its Market Value will be best indicated by the merchant builder residential land sales that have occurred in the Hemet/San Jacinto area.

Due to the currently rebounding economy and demand for residential land and product in Riverside County, much of the comparable entitled land was purchased during 1999, 2000 and 2001. Prices significantly increased during that time. However, price increases slowed in 2001, but resumed their rapid increase during 2002, 2003, and 2004. Five recent sales within the Hemet/San Jacinto were uncovered for comparison.

### **Direct Comparison Approach**

The Direct Comparison Approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties, when available. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. For the purpose of this report, the unit of comparison utilized is the price per unit for the residential land. The indicated values reflect the finished lot values for merchant builder parcels. Please refer to the following page, which summarizes the sales considered similar to the subject parcel.

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Land Sale Summary Hemet/San Jacinto Valley Market Area Merchant Builder Parcels							
Data No./ Location	Buyer/ Seller	Sales Date	Lot Size	No. of Lots	Price/ Lot	Finished Price/Lot	Remarks
No. 1 S/S Esplanade Ave., E/O Warren Rd. Hemet	Western Pacific Housing Jeffery Homes	8/04	7,200	198	\$93,000	\$93,000	Sold as finished Lots Large lots with views
No. 2 SWC Sanderson Ave. & Eaton Ave. Hemet	KB Home Ashbrook Hemet	6/04	7,200	196	\$36,000	\$83,500	Sold as raw land Adjacent to subject
No. 3 W/S Kirby St., S/O 7th St. San Jacinto	Lennar Corp Temecula Valley, LLC	11/03	7,200	126	\$65,350	\$79,850	Sold as blue-top lots To be encumbered with CFD
No. 4 NWC Lyon Ave. & 7th St. San Jacinto	Park Meadows 171, LLC Pete Oostdam, et al	9/03	7,200	167	\$19,461	\$70,961	Land in raw condition
No. 5 NEC Cawston Ave. & 7th St. San Jacinto	CDI San Jacinto I, LLC Hegdus/GKH Diversified	11/03	7,200	116	\$24,000	\$73,400	Land in raw condition Property to be in CFD



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## Land Sale Data No. 1

Location: Southside Esplanade Avenue, east of Warren Road, Hemet (Stoney Mountain Ranch)

Map Grid: 810 C-4

APN/Legal: 441-780-006, 007, 008, 009, 010/TTM 29129

Lots: 198

Lot Sizes: 7,200 Sq.Ft. (min)

Topography/Views: Level to hillside/valley views

Condition: Finished lots

Map Status: Approved tentative tract map

Sale Date: August 26, 2004

Sale Price: \$18,414,000

Sales Price Per Lot: \$93,000

Lot Finishing Costs: n/a

Finished Lot Cost: \$93,000

Buyer: Western Pacific Housing

Seller: Jeffery Homes

Terms: All cash to seller

Source: O'Donnell/Atkins, Public Records

Comments: The lots are part of the Stoney Mountain Ranch development. The lots vary from 7,200 square feet to 11,000 square feet with the average lot size of 10,000 square feet. Approximately 30% of the lots will have valley views. The buyer is Western Pacific Housing. The purchase price is based upon a finished lot value of \$93,000 per lot including school fees and TUMF fees. The lots will be delivered in a finished lot condition.

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## Land Sale Data No. 2

Location:	Southwest corner Sanderson Avenue and Eaton Avenue, Hemet
Map Grid:	810 E-5
APN/Legal	441-060-009, 021-024/TTM30560
Lots:	196
Lot Sizes:	7,200 Sq.Ft. (min)
Topography/Views:	Level/none
Condition:	Raw condition at sale
Map Status:	Approved tentative tract map
Sale Date:	June 7, 2004
Sale Price:	\$7,154,000
Sales Price Per Lot:	\$36,500
Lot Finishing Costs:	\$47,000
Finished Lot Cost:	\$83,500
Buyer:	KB Home
Seller:	Ashbrook Hemet
Terms:	All cash to seller
Source:	Seller, Public Records
Comments:	This property is located just north of the subject property, across Fruitvale Avenue. Site is currently blue-top graded lots with models under construction. Finished lot cost includes all fees.

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## Land Sale Data No. 3

Location: Westside Kirby Street, south of 7<sup>th</sup> Street, San Jacinto  
Map Grid: 810 F-3  
APN/Legal: 431-190-024/TTM 30559  
Lots: 126  
Lot Sizes: 7,200 Sq.Ft. (min)  
Topography/Views: Level/none  
Condition: Lots sold in a blue-top condition  
Map Status: Approved tentative tract map  
Sale Date: November 21, 2003 through May 4, 2004 (5 takedowns)  
Sale Price: \$8,234,220  
Sales Price Per Lot: \$65,350  
Lot Finishing Costs: \$14,500  
Finished Lot Cost: \$79,850  
Buyer: Lennar Corp  
Seller: Temecula Valley, LLC  
Terms: All cash to seller  
Source: Public Records, Selling Broker  
Comments: This property is about one mile north of the subject. This project will have a similar tax rate. Project is known as Kirby Meadows.

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## Land Sale Data No. 4

Location:	Northwest corner of Lyon Avenue and 7 <sup>th</sup> Street, San Jacinto
Map Grid:	810 G-2
APN/Legal	431-160-006 through 009/TTM 30878
Lots:	167
Lot Sizes:	7,200 Sq.Ft. (min)
Topography/Views:	Level/none
Condition:	Raw at sale
Map Status:	Approved tentative tract map
Sale Date:	September 30, 2003
Sale Price:	\$3,250,000
Sales Price Per Lot:	\$19,461
Lot Finishing Costs:	\$51,500
Finished Lot Cost:	\$70,961
Buyer:	Park Meadows 171, LLC
Seller:	Pete Oostdam, et al
Terms:	All cash to seller
Source:	Buyer, Public Records
Comments:	This property is about one and one-half mile north of the subject.

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## Land Sale Data No. 5

Location: Northeast corner Cawston Avenue & 7<sup>th</sup> Street, San Jacinto

Map Grid: 810 E-3

APN/Legal: 431-150-003/TTM 30597

Lots: 116

Lot Sizes: 7,200 Sq.Ft. (min)

Topography/Views: Level/none

Condition: Raw at sale

Map Status: Approved tentative tract map

Sale Date: October 9, 2003

Sale Price: \$2,784,000

Sales Price Per Lot: \$24,000

Lot Finishing Costs: \$49,400

Finished Lot Cost: \$73,400

Buyer: CDI San Jacinto I, LLC

Seller: Hegedus/GKH Diversified

Terms: All cash to seller

Source: Buyer, Public Records

Comments: Seller forming CFD to offset school fees and EMWD fees, etc. The agreement calls for a net reimbursement to buyer of \$11,000 per lot. If proceeds are less than \$11,000 per lot a maximum reduction of \$2,000 per lot will be made on a dollar to dollar basis. Above costs do not include CFD reimbursements

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## **Analysis**

### *Financing*

All of the comparable sales were all cash transactions or financing considered to be cash, therefore, no adjustments for financing were warranted.

### *Property Rights Conveyed*

All of the comparables involved the transfer of the fee simple interest. The subject's fee simple interest is appraised in this report, and therefore, no adjustment is warranted.

### *Time of Sale*

During the past 8 years, Southern California has sharply rebounded from its lengthy recession. Demand for land sales has dramatically exceeded supply. Prices paid for residential land increased annually by 15% to 20% and more from 1997 to 2000. However, 2001 saw a leveling of land prices, only to increase again during 2002, 2003 and the first half of 2004. Home prices have significantly increased from the lows of 1996. The median price increased over 25% in the last 12 months. This is a record high, median price level for new homes in Riverside County. However, while prices have continued up, the number of sales of both existing and new homes stabilized in 2001 and 2002, while increasing in 2003 and 2004. However, over the last four to eight weeks, prices have plateaued. This trend is also seen throughout the Inland Empire residential market. Based on sales and resales of several of the land sales, we have used a 2% per month increase for time adjustments during the last 12 months.

### *Conditions of Sale*

Typically, adjustments for conditions of sale reflect the motivations of the buyer and the seller in the transfer of real property. The conditions of sale adjustment reflects the difference between the actual sales price of the comparable and its probable sales price if it were sold in an arms-length transaction with typical motivations. Some circumstances of comparable sales that will need adjustment include sales made under duress, eminent domain transactions and sales that were not arm's length. All of the

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transactions were reported to be arm's length in nature. Accordingly, no adjustment is indicated.

## *Location*

The location adjustment is based on proximity to existing infrastructure and employment. All of the data are located in the Hemet/San Jacinto Valley with similar overall appeal. However, Data No. 1 has a superior location with view potential and requires a downward adjustment. The remaining data do not require adjustment.

## *Entitlement/Map Status*

All of the sales are entitled. No adjustment is required.

## *Tax Rate*

The subject is expected to have an average overall tax rate around 2.00% of base value. Because Data Nos. 3 and 5 have similar CFD's or Assessment Districts, no adjustment is required. Data Nos. 1, 2 and 4 will have lower tax rates and require downward adjustments. The merchant builders of the land are aware of the various taxes and have factored the impact of the higher tax rates into the prices paid for the land.

## *Lot Size*

The comparables have minimum lot sizes of 7,200 square feet. The subject's minimum lot size is 7,200 square feet. Interviews with sales persons indicated that lot size is an important feature to the Hemet/San Jacinto Valley home buyer. Therefore, we have given heaviest weight to the sales with lot sizes of 7,200 square feet and larger.

Land Sale/Adjustments  
 CIP 2004 Market Area  
 Merchant-Built Parcels

<u>Data No. Project/ Location</u>	<u>Sales Date</u>	<u>No. Lots</u>	<u>Lot Size (SF)</u>	<u>Entitlement</u>	<u>Finished Lot Cost</u>	<u>Time</u>	<u>Time Adj. Lot Cost</u>	<u>Location</u>	<u>Approved Map</u>	<u>Tax Rate</u>	<u>Lot Size</u>	<u>Condition of Lots</u>	<u>Adjusted Finished Lot</u>
No. 1 S/S Esplanade Ave., E/O Warren Rd. Hemet	8/04	198	7,200	Entitled	\$93,000	4%	\$96,720	-10%	0%	-5%	0%	0%	\$82,212
No. 2 SWC Sanderson Ave. & Eaton Ave. Hemet	6/04	198	7,200	Entitled	\$83,500	6%	\$88,510	0%	0%	-5%	0%	0%	\$84,085
No. 3 W/S Kirby St., S/O 7th St. San Jacinto	11/03	126	7,200	Entitled	\$79,850	15%	\$91,828	0%	0%	0%	0%	0%	\$91,828
No. 4 NWC Lyon Ave. & 7th St. San Jacinto	9/03	167	7,200	Entitled	\$70,961	24%	\$87,992	0%	0%	-5%	0%	0%	\$83,592
No. 5 NEC Cawston Ave. & 7th St. San Jacinto	11/03	116	7,200	Entitled	\$73,400	22%	\$89,548	0%	0%	0%	0%	0%	\$89,548



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## *Condition of Lots*

All of the data had prices based on a finished condition. No adjustment is indicated.

After all adjustments, and giving equal emphasis to all of the data, the comparable data indicated a per lot value of \$90,000 per finished lot, for lots of 7,200 square feet. The cost to finish for the subject lots were reported to be \$15,000 per lot for Tract No. 28558 and \$46,300 per lot for Tract No.31925.

## **“As Is” Valuation Conclusion Zone 1 of CFD No. 2004-1**

As previously discussed the subject property has undergone significant site improvements within Tract 28558. Model home construction is complete and 20 production dwellings are under unit construction. The previous analysis to finished lot condition was provided, in part, because that is the condition the subject land prices are based on. In addition, the comparable land sales are sold in various stages of site construction. Bringing each land sale to a finished lot condition with costs provided by the builders, allows the appraisers to complete the analysis with fewer adjustments and avoids possible incorrect estimates of costs to blue-top condition.

The merchant builders have provided a summary of the remaining costs to bring the various parcels from their “As Is” condition as of October 15, 2004 to finished condition.

The following table illustrates the subject’s finished lot value, then deducts the costs to bring each lot/tract from its “as is” condition to a finished lot condition. To account for model home upgrades and landscape improvements, we have increased the current base price for each model by \$25,000. Base sales prices are as reported by the builder and as supported by comparable projects. Tract No. 28558 has 20 dwellings under construction in the framing stage. Construction is estimated to be 45% complete. The homes under construction are valued by multiplying their approximate percentage of completion by their average base sales price. The estimated “As Is” value of the

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model homes and production homes is added to the "As Is" value of the land. The result is an "As Is" value for Zone 1 of CFD No. 2004-1. Please refer to the Addenda of this report for copies of the costs to complete to finished lot condition.

**"As Is" Value  
Zone 1, CFD No. 2004-1**

Tract No.	Finished Lot Value	Costs to Finish	"As Is" Lot Value	No. Lots	"As Is" Value Per Ownership
28558	\$90,000	\$15,000	\$75,000	53	\$3,975,000
31925	\$90,000	\$46,300	\$43,700	75	\$3,277,500
				128	\$7,252,500
28558	Model Homes 3 Model Homes x \$338,333				\$1,015,000
28558	Dwellings - 45% complete 20 Dwellings x \$143,100				\$2,862,000
					\$11,129,500
<b>"As Is" Value Improvement Zone 1, CFD No. 2004-1:</b>					<b>\$11,100,000</b>
					<b>(Rd)</b>

## VALUATION CONCLUSION

Based on the investigation and analyses undertaken, our experience as real estate appraisers, and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of October 15, 2004.

**ELEVEN MILLION ONE HUNDRED THOUSAND DOLLARS**

**\$11,100,000**

*Zone 1, owned by Hemet/San Jacinto Ventures, LLC, contains 38.20 gross acres, proposed for 151 residential dwellings. The developer has provided engineering site cost for the development. These costs total \$6,990,000 or \$46,291 per lot. The estimated value includes \$2,781,118 of facilities from this bond issue. Proceeds from CFD No. 2004-1 are to fund Eastern Municipal Water District (EMWD) facilities and Hemet Unified School District (HUSD) facilities. The value estimate is contingent upon the funding of CFD No. 2004-1, Zone 1.*

## CERTIFICATION

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

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

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

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

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

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

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

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

No one provided professional assistance to the persons signing this report.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its

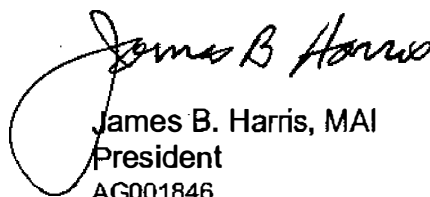
# HRA

Members, we may be required to submit to authorized committees of the Appraisal Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,



Berri J. Cannon Harris  
Vice President  
AG009147



James B. Harris, MAI  
President  
AG001846

**HRA**

**ADDENDA**

*QUALIFICATIONS*

**HARRIS REALTY APPRAISAL**

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

**QUALIFICATIONS  
OF  
JAMES B. HARRIS, MAI**

***PROFESSIONAL BACKGROUND***

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

5100 Birch Street, Suite 200  
Newport Beach, California 92660

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

**PROFESSIONAL ORGANIZATIONS**

Member of the Appraisal Institute, with MAI designation No. 6508  
Director, Southern California Chapter – 1998,1999  
Chair, Orange County Branch, Southern California Chapter -1997  
Vice-Chair, Orange County Branch, Southern California Chapter - 1996  
Member, Region VII Regional Governing Committee - 1991 to 1995, 1997, 1998  
Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999  
Chairman, Southern California Chapter Seminar Committee - 1991  
Chairman, Southern California Chapter Workshop Committee - 1990  
Member, Southern California Chapter Admissions Committee - 1983 to 1989  
Member, Regional Standards of Professional Practice Committee -1985 - 1997

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

California State Certified Appraiser, Number AG001846

***EDUCATIONAL ACTIVITIES***

B.S., California State Polytechnic University, Pomona, 1972.

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

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

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



## **TEACHING AND LECTURING ACTIVITIES**

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

## **LEGAL EXPERIENCE**

Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of Eminent Domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 55 Land Secured Municipal Bond Financing appraisals over the last five years.

## **SCOPE OF EXPERIENCE**

### ***Feasibility and Consultive Studies***

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

### ***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

### ***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

### ***Commercial***

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

### ***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

### ***Vacant Land***

Community Facilities Districts, master planned communities, residential sites, commercial sites, and industrial sites; right-of-ways for pipelines, full and partial takings for public acquisitions.

**QUALIFICATIONS  
OF  
BERRI J. CANNON**

***PROFESSIONAL BACKGROUND***

Actively engaged as a real estate appraiser since 1982. Vice President of *Harris Realty Appraisal*, with offices at:

5100 Birch Street, Suite 200  
Newport Beach, California 92660

Before joining Harris Realty Appraisal was employed with Interstate Appraisal Corporation as Assistant Vice President. Prior to employment with Interstate Appraisal was employed with Real Estate Analysts of Newport Beach as a Research Assistant.

***PROFESSIONAL ORGANIZATIONS***

Candidate of the Appraisal Institute for the MAI designation.  
Co-Chair, Southern California Chapter Hospitality Committee - 1994 - 1998  
Chair, Southern California Chapter Research Committee - 1992, 1993

Women in Commercial Real Estate, Member Orange County Chapter.  
Chair, Special Events – 1998, 1999, 2000, 2001, 2002, 2003  
Second Vice-President - 1996, 1997  
Treasurer - 1993, 1994, 1995  
Chair, Network Luncheon Committee - 1991, 1992

California State Certified Appraiser, Number AG009147

***EDUCATIONAL ACTIVITIES***

B.S.B.A., University of Redlands, Redlands, California

Successfully completed the following courses sponsored by the Appraisal Institute:

Principles of Real Estate Appraisal  
Basic Valuation Procedures  
Capitalization Theory and Techniques - A  
Capitalization Theory and Techniques - B  
Report Writing and Valuation Analyses  
Standards of Professional Practice  
Case Studies in Real Estate Valuation

Has attended numerous seminars sponsored by the Appraisal Institute. Has also attended real estate related courses through University of California-Irvine.

## **LECTURING ACTIVITIES**

Seminars and lectures presented to UCLA, California Debt and Investment Advisory Commission, and Stone & Youngberg.

## **SCOPE OF EXPERIENCE**

### ***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

### ***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

### ***Commercial***

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

### ***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

### ***Vacant Land***

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District appraisal assignments.

## **PARTIAL LIST OF CLIENTS**

### ***Lending Institutions***

American Savings Bank	NationsBank
Bank of America	Preferred Bank
Bank of California	Santa Monica Bank
Bank One	Sumitomo Bank
Coast S&L Assoc.	Tokai Bank
Commerce Bank	Union Bank
Downey S&L Assoc.	Universal S&L Assoc.
Fremont Investment and Loan	Wallace Moir Company
First Los Angeles Bank	Wells Fargo Bank
Institutional Housing Partners	Weyerhaeuser Mortgage

### ***Public Agencies***

Army Corps of Engineers	City of Oceanside
California State University	City of Palm Springs
Caltrans	City of Perris
Capistrano Unified School District	City of Riverside
City of Beaumont	City of San Marcos
City of Costa Mesa	City of Tustin
City of Encinitas	County of Orange
City of Fontana	County of Riverside
City of Fullerton	Eastern Municipal Water District
City of Hemet	Orange County Sheriff's Department
City of Honolulu	Ramona Municipal Water District
City of Indian Wells	Rancho Santa Fe Comm. Services District
City of Irvine	Saddleback Valley Unified School District
City of Lake Elsinore	Santa Ana Unified School District
City of Los Angeles	Val Verde Unified School District
City of Newport Beach	

### ***Developers and Landowners***

Coto de Caza, Ltd.	Lennar Homes
DMB - Ladera	McLain Development
Foothill Ranch Company	Rancho Mission Viejo
Hon Development Co.	Santa Margarita Company
The Irvine Company	Sterling Development.
Irvine Apartment Communities	Shapell Industries

### ***Law Firms***

Arter & Hadden	McClintock, Weston, Benshoof,
Bronson, Bronson & McKinnon	Rocheffort & MacCuish
Bryan, Cave, McPheeters & McRoberts	Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Cox, Castle, Nicholson	Sonnenschein Nath & Rosenthal
Gibson, Dunn & Crutcher	Strauss & Troy

**DAVID TAUSSIG & ASSOCIATES TAX SPREADS (PORTION)**



FISCAL YEAR - COLLECTION OF TAXES  
 CALENDAR YEAR - PAYMENTS TO BOND HOLDERS

	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>SERIES A</b>																		
<b>*BDC 2004*</b>																		
SCHOOL FACILITIES	30	\$194,900	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
EASTERN MUNICIPAL WATER DISTRICT FACILITIES	30	\$83,218	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CONSTRUCTION PROCEEDS	30	\$2,761,118	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CAPITALIZED INTEREST	30	\$215,992	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ISSUANCE COSTS	30	\$145,054	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
UNDERWRITER'S DISCOUNT	30	\$72,528	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
RESERVE FUND DEPOSIT	30	\$362,790	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
PREPAID ADMINISTRATION	30	\$60,000	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
<b>BOND AMOUNT</b>	<b>30</b>	<b>\$3,086,394</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>SERIES B</b>																		
<b>*MAR 2005*</b>																		
ZONE 1 - SCHOOL FACILITIES	30	\$910,900	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ZONE 2 - SCHOOL FACILITIES	30	\$670,800	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ZONE 3 - EASTERN MUNICIPAL WATER DISTRICT FACILITIES	30	\$135,165	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ZONE 4 - EASTERN MUNICIPAL WATER DISTRICT FACILITIES	30	\$786,916	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ZONE 5 - CITY OF SAN JACINTO FACILITIES	30	\$154,360	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CONSTRUCTION PROCEEDS	30	\$2,163,161	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CAPITALIZED INTEREST	30	\$389,780	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ISSUANCE COSTS	30	\$123,279	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
UNDERWRITER'S DISCOUNT	30	\$61,140	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
RESERVE FUND DEPOSIT	30	\$545,699	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
PREPAID ADMINISTRATION	30	\$15,000	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
<b>BOND AMOUNT</b>	<b>30</b>	<b>\$3,858,986</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>SERIES C</b>																		
<b>*SEPT 2005*</b>																		
SCHOOL FACILITIES	30	\$1,340,000	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CONSTRUCTION PROCEEDS	30	\$1,340,000	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CAPITALIZED INTEREST	30	\$254,717	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
ISSUANCE COSTS	30	\$76,415	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
UNDERWRITER'S DISCOUNT	30	\$38,208	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
RESERVE FUND DEPOSIT	30	\$191,053	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
PREPAID ADMINISTRATION	30	\$18,000	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
<b>BOND AMOUNT</b>	<b>30</b>	<b>\$1,919,377</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>IV. ZONE 1 - DEVELOPED LOTS (PERMITS AS OF 2/1)</b>																		
CLASS 1 - < 1,500 BSF	2	3	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
CLASS 2 - 1,551 - 2,000 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 3 - 2,001 - 2,450 BSF	2	24	44	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
CLASS 4 - 2,451 - 3,000 BSF	3	29	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
CLASS 5 - > 3,000 BSF	1	10	40	44	40	40	40	40	40	40	40	40	40	40	40	40	40	40
<b>Total</b>	<b>9</b>	<b>71</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>	<b>151</b>
UNDEVELOPED ACREAGE	22.55	12.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>V. ZONE 2 - DEVELOPED LOTS (PERMITS AS OF 2/1)</b>																		
CLASS 1 - < 1,000 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 2 - 1,001 - 1,499 BSF	0	10	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
CLASS 3 - 1,500 - 1,999 BSF	0	10	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
CLASS 4 - > 1,999 BSF	0	10	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
<b>Total</b>	<b>0</b>	<b>30</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>
UNDEVELOPED ACREAGE	11.34	6.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

FISCAL YEAR - COLLECTION OF TAXES  
CALENDAR YEAR - PAYMENTS TO BOND HOLDERS

	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>VII. ZONE 3 - DEVELOPED UNITS (PERMITS AS OF 5/1)</b>																			
CLASS 1: <= 1,950 BSF	0	4	7	9	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
CLASS 2: 1,951 - 2,000 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 3: 2,001 - 2,450 BSF	0	9	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
CLASS 4: 2,451 - 2,600 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 5: > 2,600 BSF	0	10	20	36	24	36	24	26	26	26	26	26	26	26	26	26	26	26	26
<b>Total</b>	0	23	52	52	52	52	52	52	52	52	52	52	52	52	52	52	52	52	52
UNDEVELOPED ACREAGE	8.54	4.76	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>VIII. ZONE 4 - DEVELOPED UNITS (PERMITS AS OF 5/1)</b>																			
CLASS 1: Residential Unit	0	0	50	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
<b>Total</b>	0	0	50	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
UNDEVELOPED ACREAGE	16.02	16.02	8.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>VIII. ZONE 1 - PROJECTED SPECIAL TAX REVENUES</b>																			
UNDEVELOPED PROPERTY	90	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
DEVELOPED PROPERTY																			
CLASS 1: <= 1,250 BSF	50	50	\$19,047	\$6,615	\$27,040	\$27,691	\$28,244	\$28,800	\$29,355	\$29,913	\$30,473	\$31,034	\$31,598	\$32,164	\$32,732	\$33,303	\$33,875	\$34,450	\$35,029
CLASS 2: 1,251 - 2,000 BSF	10	10	90	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
CLASS 3: 2,001 - 2,450 BSF	10	10	\$41,916	\$71,580	\$72,754	\$74,169	\$75,673	\$77,186	\$78,730	\$80,305	\$81,911	\$83,549	\$85,220	\$86,924	\$88,663	\$90,436	\$92,245	\$94,090	\$95,971
CLASS 4: 2,451 - 2,600 BSF	10	10	\$52,390	\$101,320	\$103,355	\$105,422	\$107,521	\$109,651	\$111,824	\$114,031	\$116,274	\$118,552	\$120,867	\$123,219	\$125,609	\$128,038	\$130,507	\$133,017	\$135,568
CLASS 5: > 2,600 BSF	10	10	\$18,647	\$76,078	\$77,000	\$78,152	\$80,735	\$82,350	\$84,996	\$87,726	\$90,541	\$93,442	\$96,430	\$99,506	\$102,671	\$105,927	\$109,274	\$112,712	\$116,241
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	90	90	\$136,819	\$255,338	\$290,837	\$286,453	\$297,182	\$298,026	\$303,986	\$310,066	\$316,268	\$322,594	\$329,045	\$335,627	\$342,339	\$349,186	\$356,170	\$363,291	\$370,549
<b>IX. ZONE 2 - PROJECTED SPECIAL TAX REVENUES</b>																			
UNDEVELOPED PROPERTY	10	90	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
DEVELOPED PROPERTY																			
CLASS 1: <= 1,300 BSF	10	10	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
CLASS 2: 1,301 - 1,600 BSF	10	10	\$15,041	\$41,424	\$42,253	\$43,076	\$43,900	\$44,726	\$45,554	\$46,384	\$47,216	\$48,051	\$48,888	\$49,728	\$50,571	\$51,417	\$52,266	\$53,118	\$53,973
CLASS 3: 1,601 - 1,900 BSF	10	10	\$18,775	\$45,719	\$46,394	\$47,065	\$47,733	\$48,400	\$49,068	\$49,738	\$50,410	\$51,084	\$51,760	\$52,438	\$53,119	\$53,802	\$54,487	\$55,174	\$55,863
CLASS 4: > 1,900 BSF	10	10	\$17,541	\$30,417	\$31,025	\$31,644	\$32,279	\$32,924	\$33,583	\$34,254	\$34,939	\$35,636	\$36,346	\$37,068	\$37,802	\$38,548	\$39,306	\$40,076	\$40,858
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	90	100	\$48,457.70	\$115,560.54	\$117,471.47	\$120,225.94	\$122,633.48	\$125,086.15	\$127,597.87	\$130,169.63	\$132,792.42	\$135,467.27	\$138,195.21	\$140,977.32	\$143,813.64	\$146,705.36	\$149,653.52	\$152,658.21	\$155,720.51
<b>X. ZONE 3 - PROJECTED SPECIAL TAX REVENUES</b>																			
UNDEVELOPED PROPERTY	30	10	50	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
DEVELOPED PROPERTY																			
CLASS 1: <= 1,150 BSF	30	10	\$8,250	\$14,756	\$15,021	\$15,321	\$15,627	\$15,940	\$16,259	\$16,584	\$16,916	\$17,254	\$17,599	\$17,951	\$18,310	\$18,676	\$19,049	\$19,429	\$19,815
CLASS 2: 1,151 - 2,000 BSF	30	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
CLASS 3: 2,001 - 2,450 BSF	30	10	\$20,417	\$44,048	\$44,838	\$45,794	\$46,792	\$47,836	\$48,928	\$49,540	\$50,681	\$51,862	\$53,084	\$54,348	\$55,655	\$57,007	\$58,405	\$59,849	\$61,339
CLASS 4: 2,451 - 2,600 BSF	30	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
CLASS 5: > 2,600 BSF	30	10	\$21,958	\$43,534	\$44,807	\$46,303	\$47,425	\$48,774	\$50,149	\$51,552	\$53,003	\$54,445	\$55,932	\$57,465	\$59,046	\$60,675	\$62,353	\$64,081	\$65,859
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	90	50	\$59,645	\$122,250	\$124,716	\$127,210	\$129,754	\$132,340	\$134,996	\$137,696	\$140,440	\$143,229	\$146,064	\$148,947	\$151,879	\$154,860	\$157,891	\$160,972	\$164,103
<b>XI. ZONE 4 - PROJECTED SPECIAL TAX REVENUES</b>																			
UNDEVELOPED PROPERTY	90	50	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
DEVELOPED PROPERTY																			
CLASS 1: Residential Unit	90	90	50	\$77,209	\$27,706	\$104,656	\$163,869	\$187,147	\$179,490	\$173,900	\$177,378	\$180,925	\$184,544	\$188,234	\$191,999	\$195,839	\$199,756	\$203,751	\$207,825
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	90	90	10	\$77,209	\$127,706	\$164,656	\$163,869	\$187,147	\$179,490	\$173,900	\$177,378	\$180,925	\$184,544	\$188,234	\$191,999	\$195,839	\$199,756	\$203,751	\$207,825



FISCAL YEAR - COLLECTION OF TAXES  
CALENDAR YEAR - PAYMENTS TO BOND HOLDERS

	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>XII. SERIES A - NET ANNUAL DEBT SERVICE</b>																			
BONDED INDEBTEDNESS	\$0	\$3,626,394	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND DEPOSIT	\$0	\$361,790	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GROSS ANNUAL DEBT SERVICE PAYMENTS	\$0	\$1,099,987	\$226,658	\$226,699	\$220,770	\$235,385	\$248,009	\$844,895	\$249,799	\$254,989	\$259,885	\$265,062	\$270,184	\$275,792	\$281,107	\$286,934	\$292,672	\$299,284	\$294,390
ADMINISTRATIVE EXPENSES	\$0	\$0	\$0	\$28,190	\$26,530	\$27,061	\$27,002	\$28,154	\$28,717	\$29,291	\$29,877	\$30,475	\$31,084	\$31,706	\$32,340	\$32,987	\$33,647	\$34,320	\$34,120
CAPITALIZED INTEREST	\$0	(\$164,549)	(\$54,853)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND EARNINGS	\$-0	(\$5,427)	(\$7,256)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)	(\$7,236)
NET ANNUAL DEBT SERVICE	\$0	(\$0)	\$144,540	\$245,424	\$219,064	\$255,210	\$290,459	\$865,813	\$271,274	\$276,845	\$282,524	\$288,321	\$294,232	\$300,262	\$306,412	\$312,765	\$319,363	\$326,210	\$325,510
<b>XIII. SERIES B - NET ANNUAL DEBT SERVICE</b>																			
BONDED INDEBTEDNESS	\$0	\$3,186,936	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND DEPOSIT	\$0	\$301,689	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GROSS ANNUAL DEBT SERVICE PAYMENTS	\$0	\$100,373	\$806,347	\$296,347	\$296,347	\$296,347	\$299,209	\$215,485	\$217,755	\$221,110	\$224,552	\$228,080	\$231,705	\$235,419	\$239,229	\$243,132	\$247,125	\$251,207	\$255,377
ADMINISTRATIVE EXPENSES	\$0	\$0	\$0	\$0	\$15,008	\$15,918	\$16,216	\$16,561	\$16,892	\$17,220	\$17,575	\$17,926	\$18,285	\$18,651	\$19,024	\$19,404	\$19,792	\$20,188	\$20,188
CAPITALIZED INTEREST	\$0	(\$104,119)	(\$200,233)	(\$100,114)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND EARNINGS	\$-0	(\$1,847)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)
NET ANNUAL DEBT SERVICE	\$0	\$0	(\$0)	\$100,116	\$215,809	\$216,151	\$219,422	\$222,893	\$228,534	\$233,226	\$238,083	\$242,894	\$247,874	\$252,956	\$258,137	\$263,422	\$268,811	\$274,311	\$274,311
<b>XIV. SERIES C - NET ANNUAL DEBT SERVICE</b>																			
BONDED INDEBTEDNESS	\$0	\$0	\$1,910,377	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND DEPOSIT	\$0	\$0	\$191,038	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GROSS ANNUAL DEBT SERVICE PAYMENTS	\$0	\$0	\$133,726	\$133,726	\$133,726	\$133,726	\$134,185	\$134,669	\$135,166	\$135,676	\$136,198	\$136,732	\$137,277	\$137,834	\$138,402	\$138,981	\$139,571	\$140,172	\$140,784
ADMINISTRATIVE EXPENSES	\$0	\$0	\$0	\$0	\$10,404	\$10,612	\$10,824	\$11,041	\$11,262	\$11,487	\$11,717	\$11,951	\$12,190	\$12,434	\$12,682	\$12,934	\$13,190	\$13,450	\$13,450
CAPITALIZED INTEREST	\$0	\$0	(\$129,906)	(\$129,906)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND EARNINGS	\$-0	\$0	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)
NET ANNUAL DEBT SERVICE	\$0	\$0	(\$0)	\$0	\$140,310	\$140,310	\$141,189	\$142,089	\$142,967	\$143,864	\$144,781	\$145,728	\$146,704	\$147,709	\$148,744	\$149,808	\$150,901	\$152,023	\$152,400
<b>XV. SERIES A - ANNUAL COVERAGE RATIOS</b>																			
GROSS DEBT SERVICE COVERAGE - EXPECTED DEVELOPMENT	NA	NA	NA	110.00%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%
GROSS DEBT SERVICE COVERAGE - NO DEVELOPMENT	NA	NA	NA	110.00%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%
GROSS DEBT SERVICE COVERAGE - UNDERDEVELOPMENT	NA	NA	NA	110.00%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%	118.20%
<b>XVI. SERIES B - ANNUAL COVERAGE RATIOS</b>																			
GROSS DEBT SERVICE COVERAGE - EXPECTED DEVELOPMENT	NA	NA	NA	NA	130.00%	112.20%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%
GROSS DEBT SERVICE COVERAGE - NO DEVELOPMENT	NA	NA	NA	NA	130.00%	112.20%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%
GROSS DEBT SERVICE COVERAGE - UNDERDEVELOPMENT	NA	NA	NA	NA	130.00%	112.20%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%
<b>XVII. SERIES C - ANNUAL COVERAGE RATIOS</b>																			
GROSS DEBT SERVICE COVERAGE - EXPECTED DEVELOPMENT	NA	NA	NA	NA	110.00%	112.20%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%
GROSS DEBT SERVICE COVERAGE - NO DEVELOPMENT	NA	NA	NA	NA	110.00%	112.20%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%
GROSS DEBT SERVICE COVERAGE - UNDERDEVELOPMENT	NA	NA	NA	NA	110.00%	112.20%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%	114.06%



FISCAL YEAR - COLLECTION OF TAXES CALENDAR YEAR - PAYMENTS TO BONDHOLDERS	2017/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	TOTAL
<b>V. ZONE 3 - DEVELOPED UNITS (RESIDENTIAL)</b>																		
CLASS 1: <= 1,950 BSF	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	NA
CLASS 2: 1,951 - 2,300 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	NA
CLASS 3: 2,301 - 2,450 BSF	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	NA
CLASS 4: 2,451 - 2,600 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	NA
CLASS 5: > 2,600 BSF	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	NA
<b>Total</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>NA</b>
UNDEVELOPED ACREAGE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA
<b>VII. ZONE 4 - DEVELOPED UNITS (RESIDENTIAL)</b>																		
CLASS 1: Residential Unit	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	NA
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>NA</b>
UNDEVELOPED ACREAGE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	NA
<b>VIII. ZONE 1 - PROJECTED SPECIAL TAX REVENUES UNDEVELOPED PROPERTY</b>																		
DEVELOPED PROPERTY	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
CLASS 1: <= 1,950 BSF	\$35,821	\$36,537	\$37,268	\$38,014	\$38,774	\$39,549	\$40,340	\$41,147	\$41,970	\$42,818	\$43,686	\$44,559	\$45,430	\$46,338	\$47,265	\$48,210	\$49,175	\$1,190,372
CLASS 2: 1,951 - 2,300 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 3: 2,301 - 2,450 BSF	\$95,971	\$97,091	\$98,249	\$1,01,846	\$1,03,882	\$1,05,900	\$1,08,079	\$1,10,241	\$1,12,466	\$1,14,694	\$1,16,994	\$1,19,328	\$1,21,714	\$1,24,149	\$1,26,632	\$1,29,164	\$1,31,746	\$5,195,692
CLASS 4: 2,451 - 2,600 BSF	\$136,371	\$139,103	\$141,885	\$144,712	\$147,417	\$150,990	\$153,580	\$156,652	\$159,785	\$162,900	\$166,240	\$169,565	\$172,916	\$176,415	\$179,944	\$183,542	\$187,213	\$4,533,816
CLASS 5: > 2,600 BSF	\$82,352	\$184,440	\$186,528	\$1,08,659	\$110,832	\$113,049	\$115,310	\$117,614	\$119,956	\$122,367	\$124,814	\$127,311	\$129,857	\$132,454	\$135,104	\$137,806	\$140,562	\$3,383,368
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	<b>\$370,559</b>	<b>\$377,971</b>	<b>\$385,530</b>	<b>\$393,240</b>	<b>\$401,105</b>	<b>\$409,127</b>	<b>\$417,310</b>	<b>\$425,636</b>	<b>\$434,189</b>	<b>\$442,852</b>	<b>\$451,789</b>	<b>\$460,743</b>	<b>\$469,958</b>	<b>\$479,357</b>	<b>\$488,944</b>	<b>\$498,723</b>	<b>\$508,697</b>	<b>\$12,383,069</b>
<b>IX. ZONE 3 - PROJECTED SPECIAL TAX REVENUES UNDEVELOPED PROPERTY</b>																		
DEVELOPED PROPERTY	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50.00
CLASS 1: <= 1,950 BSF	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
CLASS 2: 1,951 - 2,300 BSF	\$55,752	\$64,867	\$75,004	\$89,164	\$103,347	\$118,554	\$134,783	\$152,041	\$170,326	\$189,648	\$210,007	\$231,414	\$253,879	\$277,404	\$301,989	\$327,734	\$354,549	\$1,847,114
CLASS 3: 2,301 - 2,600 BSF	\$58,640	\$60,017	\$61,217	\$62,442	\$63,691	\$64,964	\$66,264	\$67,589	\$68,941	\$70,320	\$71,726	\$73,160	\$74,624	\$76,116	\$77,638	\$79,191	\$80,775	\$1,949,445
CLASS 4: > 2,600 BSF	\$40,957	\$41,736	\$42,591	\$43,443	\$44,312	\$45,198	\$46,102	\$47,024	\$47,964	\$48,923	\$49,902	\$50,900	\$51,918	\$52,956	\$54,015	\$55,096	\$56,198	\$1,362,786
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	<b>\$155,350</b>	<b>\$166,620</b>	<b>\$178,812</b>	<b>\$192,048</b>	<b>\$207,350</b>	<b>\$224,716</b>	<b>\$244,047</b>	<b>\$265,674</b>	<b>\$289,270</b>	<b>\$315,592</b>	<b>\$344,637</b>	<b>\$376,444</b>	<b>\$411,613</b>	<b>\$451,059</b>	<b>\$494,924</b>	<b>\$543,320</b>	<b>\$596,522</b>	<b>\$5,159,345</b>
<b>X. ZONE 4 - PROJECTED SPECIAL TAX REVENUES UNDEVELOPED PROPERTY</b>																		
DEVELOPED PROPERTY	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
CLASS 1: <= 1,950 BSF	\$19,819	\$20,216	\$20,619	\$21,022	\$21,433	\$21,852	\$22,279	\$22,716	\$23,161	\$23,614	\$24,084	\$24,561	\$25,046	\$25,538	\$26,038	\$26,544	\$27,056	\$659,538
CLASS 2: 1,951 - 2,300 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 3: 2,301 - 2,450 BSF	\$89,229	\$90,414	\$91,622	\$92,854	\$94,111	\$95,394	\$96,704	\$98,043	\$99,413	\$100,814	\$102,246	\$103,709	\$105,204	\$106,731	\$108,291	\$109,884	\$111,503	\$1,966,779
CLASS 4: 2,451 - 2,600 BSF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CLASS 5: > 2,600 BSF	\$85,512	\$87,222	\$88,946	\$90,745	\$92,640	\$94,612	\$96,630	\$98,726	\$100,890	\$103,124	\$105,438	\$107,823	\$110,289	\$112,838	\$115,471	\$118,181	\$119,957	\$2,833,980
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	<b>\$164,560</b>	<b>\$167,852</b>	<b>\$171,207</b>	<b>\$174,681</b>	<b>\$178,285</b>	<b>\$181,997</b>	<b>\$185,824</b>	<b>\$189,676</b>	<b>\$193,554</b>	<b>\$197,458</b>	<b>\$201,389</b>	<b>\$205,337</b>	<b>\$209,304</b>	<b>\$213,299</b>	<b>\$217,322</b>	<b>\$221,373</b>	<b>\$225,451</b>	<b>\$5,460,297</b>
<b>XI. ZONE 4 - PROJECTED SPECIAL TAX REVENUES UNDEVELOPED PROPERTY</b>																		
DEVELOPED PROPERTY	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
CLASS 1: Residential Unit	\$207,326	\$211,383	\$216,222	\$220,947	\$225,558	\$230,157	\$234,746	\$239,327	\$243,901	\$248,471	\$253,039	\$257,606	\$262,174	\$266,743	\$271,312	\$275,881	\$280,451	\$6,732,232
<b>TOTAL PROJECTED ANNUAL SPECIAL TAX REVENUES</b>	<b>\$207,326</b>	<b>\$211,383</b>	<b>\$216,222</b>	<b>\$220,947</b>	<b>\$225,558</b>	<b>\$230,157</b>	<b>\$234,746</b>	<b>\$239,327</b>	<b>\$243,901</b>	<b>\$248,471</b>	<b>\$253,039</b>	<b>\$257,606</b>	<b>\$262,174</b>	<b>\$266,743</b>	<b>\$271,312</b>	<b>\$275,881</b>	<b>\$280,451</b>	<b>\$6,732,232</b>

FISCAL YEAR - COLLECTION OF TAXES	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039
<b>XII. SERIES A - NET ANNUAL DEBT SERVICE</b>																		
BONDED INTERESTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND DEPOSIT	\$184,469	\$114,858	\$212,798	\$261,214	\$292,977	\$326,766	\$356,700	\$387,179	\$418,603	\$451,391	\$485,904	\$521,664	\$559,473	\$600,000	\$643,334	\$689,614	\$739,000	\$791,750
GROSS ANNUAL DEBT SERVICE PAYMENTS	\$184,469	\$114,858	\$212,798	\$261,214	\$292,977	\$326,766	\$356,700	\$387,179	\$418,603	\$451,391	\$485,904	\$521,664	\$559,473	\$600,000	\$643,334	\$689,614	\$739,000	\$791,750
ADMINISTRATIVE EXPENSES	\$31,606	\$33,708	\$36,400	\$39,248	\$42,297	\$45,549	\$48,999	\$52,647	\$56,495	\$60,543	\$64,891	\$69,539	\$74,487	\$79,735	\$85,283	\$91,131	\$97,279	\$103,727
CAPITALIZED INTEREST	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND EARNINGS	(\$7,735)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)	(\$7,256)
NET ANNUAL DEBT SERVICE	\$182,266	\$112,657	\$212,798	\$261,214	\$292,977	\$326,766	\$356,700	\$387,179	\$418,603	\$451,391	\$485,904	\$521,664	\$559,473	\$600,000	\$643,334	\$689,614	\$739,000	\$791,750
<b>XIII. SERIES B - NET ANNUAL DEBT SERVICE</b>																		
BONDED INTERESTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND DEPOSIT	\$685,449	\$729,247	\$778,166	\$831,488	\$889,273	\$951,640	\$1,018,697	\$1,090,554	\$1,167,311	\$1,249,078	\$1,335,955	\$1,428,042	\$1,525,339	\$1,627,946	\$1,735,963	\$1,849,490	\$1,968,637	\$2,093,504
GROSS ANNUAL DEBT SERVICE PAYMENTS	\$685,449	\$729,247	\$778,166	\$831,488	\$889,273	\$951,640	\$1,018,697	\$1,090,554	\$1,167,311	\$1,249,078	\$1,335,955	\$1,428,042	\$1,525,339	\$1,627,946	\$1,735,963	\$1,849,490	\$1,968,637	\$2,093,504
ADMINISTRATIVE EXPENSES	\$20,595	\$21,004	\$21,624	\$22,264	\$22,934	\$23,634	\$24,364	\$25,124	\$25,914	\$26,734	\$27,584	\$28,464	\$29,374	\$30,314	\$31,284	\$32,284	\$33,314	\$34,374
CAPITALIZED INTEREST	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND EARNINGS	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)	(\$6,114)
NET ANNUAL DEBT SERVICE	\$779,930	\$838,611	\$891,476	\$949,748	\$1,018,697	\$1,089,450	\$1,162,813	\$1,239,439	\$1,319,511	\$1,402,634	\$1,488,811	\$1,578,042	\$1,670,339	\$1,765,683	\$1,864,079	\$1,965,526	\$2,070,127	\$2,178,830
<b>XIV. SERIES C - NET ANNUAL DEBT SERVICE</b>																		
BONDED INTERESTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND DEPOSIT	\$176,179	\$173,587	\$177,054	\$180,595	\$184,207	\$187,889	\$191,642	\$195,466	\$199,361	\$203,327	\$207,364	\$211,473	\$215,654	\$219,906	\$224,229	\$228,624	\$233,091	\$237,630
GROSS ANNUAL DEBT SERVICE PAYMENTS	\$176,179	\$173,587	\$177,054	\$180,595	\$184,207	\$187,889	\$191,642	\$195,466	\$199,361	\$203,327	\$207,364	\$211,473	\$215,654	\$219,906	\$224,229	\$228,624	\$233,091	\$237,630
ADMINISTRATIVE EXPENSES	\$13,728	\$14,807	\$15,782	\$16,764	\$17,753	\$18,756	\$19,774	\$20,807	\$21,854	\$22,915	\$23,991	\$25,081	\$26,184	\$27,301	\$28,432	\$29,578	\$30,739	\$31,915
CAPITALIZED INTEREST	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
RESERVE FUND EARNINGS	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)	(\$3,821)
NET ANNUAL DEBT SERVICE	\$180,086	\$182,764	\$187,716	\$192,549	\$197,439	\$202,389	\$207,399	\$212,469	\$217,599	\$222,780	\$228,011	\$233,292	\$238,623	\$244,004	\$249,435	\$254,916	\$260,447	\$266,028
<b>XV. SERIES A - ANNUAL COVERAGE RATIOS</b>																		
GROSS DEBT SERVICE COVERAGE - EXPECTED DEVELOPMENT	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%
GROSS DEBT SERVICE COVERAGE - NO DEVELOPMENT	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%
GROSS DEBT SERVICE COVERAGE - UNDERDEVELOPMENT	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%	110.20%
<b>XVI. SERIES B - ANNUAL COVERAGE RATIOS</b>																		
GROSS DEBT SERVICE COVERAGE - EXPECTED DEVELOPMENT	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%
GROSS DEBT SERVICE COVERAGE - NO DEVELOPMENT	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%
GROSS DEBT SERVICE COVERAGE - UNDERDEVELOPMENT	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%	112.83%
<b>XVII. SERIES C - ANNUAL COVERAGE RATIOS</b>																		
GROSS DEBT SERVICE COVERAGE - EXPECTED DEVELOPMENT	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%
GROSS DEBT SERVICE COVERAGE - NO DEVELOPMENT	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%
GROSS DEBT SERVICE COVERAGE - UNDERDEVELOPMENT	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%	114.66%

**SITE DEVELOPMENT COST SUMMARY**



Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06
20	10	10	20	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	10	10	0	10	10	0	10	10	0	10	10	10	10	10	10	7	0	0	0	0	0
8	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0
10	10	10	0	10	10	0	10	10	0	10	10	10	10	10	10	7	4	0	0	0	0
4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	7	0	0	0	0	0
3,205,188	3,205,188	3,205,188	0	3,205,188	3,205,188	0	3,205,188	3,205,188	0	3,205,188	3,205,188	3,205,188	3,205,188	3,205,188	3,205,188	2,243,639	1,282,079	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	24,000	0	0	0	0	0	0	0	0	18,000	0	0	0	12,000	0	0	0	0	0	0	0
450,000	390,000	239,830	54,830	28,000	25,800	150,000	150,000	250,000	250,000	250,000	25,000	25,000	25,000	25,000	25,000	25,000	50,000	0	0	0	0
240,164	0	0	298,154	0	0	0	0	290,164	0	290,164	181,557	0	0	0	0	0	0	0	0	0	0
600,164	414,000	239,830	344,904	25,000	25,800	174,000	180,000	540,164	250,000	696,164	128,557	25,000	25,000	37,000	25,000	25,000	50,000	0	0	0	0
1,172,151	957,141	531,745	1,017,261	762,938	531,745	1,017,261	762,938	1,017,261	806,177	1,179,087	1,117,820	875,636	743,287	791,838	493,598	295,240	84,734	0	0	0	0
50,000	0	0	80,000	0	0	50,000	0	50,000	0	60,000	17,500	0	0	0	0	0	0	0	0	0	0
140,858	114,857	63,808	122,078	81,553	63,808	122,078	81,553	141,498	97,101	141,498	134,138	117,078	89,194	95,021	59,232	35,789	7,788	0	0	0	0
1,362,909	1,071,998	585,554	1,189,321	854,481	585,554	1,189,321	854,481	1,189,321	806,278	1,370,577	1,290,458	1,092,713	832,481	896,958	642,839	334,028	72,542	0	0	0	0
42,868	43,772	41,038	32,814	44,140	30,978	22,470	31,863	16,492	18,777	24,640	24,289	20,589	15,846	7,982	1,169	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	10,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
80,130	80,130	88,130	0	80,130	80,130	0	80,130	80,130	0	80,130	80,130	80,130	80,130	80,130	80,130	80,130	58,091	32,052	0	0	0
25,000	25,000	0	0	25,000	25,000	0	25,000	25,000	0	25,000	25,000	25,000	25,000	15,000	15,000	10,500	6,000	0	0	0	0
32,852	32,852	32,852	0	32,852	32,852	0	32,852	32,852	0	32,852	32,852	32,852	32,852	32,852	32,852	22,436	12,821	0	0	0	0
100,000	100,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	0	0	0	0
48,000	40,000	40,000	50,000	60,000	50,000	50,000	50,000	50,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	0	0	0	0
15,000	15,000	15,000	0	15,000	15,000	0	15,000	15,000	0	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	0	0	0	0
334,150	335,954	268,220	118,814	281,328	274,157	107,470	253,844	256,674	101,777	281,822	271,381	267,691	262,228	245,104	236,351	194,527	151,873	0	0	0	0
2,368,123	1,821,952	1,103,604	1,853,128	1,180,818	898,711	1,470,791	1,258,335	1,084,158	1,258,056	2,180,563	1,987,487	1,365,404	1,119,709	1,168,962	816,181	663,556	274,375	0	0	0	0
817,075	1,383,246	2,101,584	(1,453,128)	2,844,378	2,306,467	(1,478,781)	1,846,883	1,220,038	(1,258,056)	1,014,836	1,537,781	1,819,784	2,085,489	2,036,238	2,389,017	1,680,083	1,087,704	0	0	0	0
2,235,941	1,668,770	961,427	1,863,128	0	746,529	1,470,791	0	832,977	1,258,056	2,038,381	1,615,226	1,233,222	967,627	1,024,780	673,999	454,028	217,502	0	0	0	0
2,187,383	2,107,383	2,107,303	0	2,187,383	2,107,303	0	2,187,303	2,107,303	0	2,107,303	2,107,303	2,187,303	2,107,303	2,107,303	861,053	454,028	217,502	0	0	0	0
7,003,578	6,686,045	5,410,184	7,083,283	4,955,880	3,595,216	5,806,007	2,858,704	2,584,378	3,942,434	3,873,612	3,281,434	2,407,353	1,287,577	187,855	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	1,017,785	0	1,017,785	964,478	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,080,000	3,800,000	1,982,235	1,982,235	954,470	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
37,500	37,500	24,778	24,778	12,856	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	53,286	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
888,553	848,043	870,840	895,618	707,674	854,378	654,378	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
817,075	1,383,246	2,101,584	(1,453,128)	2,844,378	2,306,467	(1,478,781)	1,292,483	1,228,038	(1,258,056)	1,014,836	1,537,781	1,819,784	2,085,489	2,036,238	2,389,017	1,680,083	1,087,704	0	0	0	0
817,075	1,383,246	3,119,359	(1,643,128)	3,062,145	3,270,957	(1,478,781)	1,949,883	1,220,038	(1,258,056)	1,014,836	1,537,781	1,819,784	2,085,489	2,036,238	2,389,017	1,680,083	1,087,704	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	815,889	0	815,889	888,023	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	47,806	0	588,941	0	0	0	0	0	0	0	0	0	0	0	0	0	0
32,852	32,852	32,852	0	32,852	32,852	0	32,852	32,852	0	32,852	32,852	32,852	32,852	32,852	32,852	22,436	12,821	0	0	0	0
408,538	681,823	1,050,787	(828,584)	1,022,188	1,126,586	(735,386)	848,242	810,020	(828,028)	687,318	788,895	809,887	1,042,744	1,018,110	1,194,509	845,041	705,383	0	0	0	0
448,588	723,676	1,998,838	(828,584)	1,870,230	2,074,836	(735,386)	1,287,235	642,072	(828,028)	636,370	800,847	841,548	1,074,796	1,050,170	1,226,561	867,478	718,214	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	101,777	0	181,777	98,447	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	5,330	0	55,438	0	0	0	0	0	0	0	0	0	0	0	0	0	0
408,538	681,823	1,050,787	(828,584)	1,022,188	1,126,586	(735,386)	848,242	810,020	(828,028)	687,318	788,895	809,887	1,042,744	1,018,110	1,194,509	845,041	705,383	0	0	0	0
408,538	681,823	1,162,573	(828,584)	1,123,986	1,228,372	(735,386)	711,680	610,020	(828,028)	507,318	788,895	988,887	1,042,744	1,018,110	1,194,509	845,041	603,852	0	0	0	0

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

#### COMMUNITY FACILITIES DISTRICT NO. 2004-1 OF THE HEMET UNIFIED SCHOOL DISTRICT 2004 SPECIAL TAX BONDS

*The following is a brief summary of certain provisions of the Fiscal Agent Agreement relative to the above-referenced 2004 Special Tax Bonds. This summary is not intended to be definitive and is qualified in its entirety by reference to such Fiscal Agent Agreement for the complete terms of the Fiscal Agent Agreement. Copies of the Fiscal Agent Agreement are available upon request from the Hemet Unified School District.*

#### **DEFINITIONS**

The following are summaries of definitions of certain terms used in this Summary. All capitalized terms not defined in the Fiscal Agent Agreement or elsewhere in the Official Statement have the meaning(s) set forth in the Fiscal Agent Agreement.

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

**"Administrative Expenses"** means the administrative costs with respect to the calculation and collection of the Special Taxes and any other costs related to the Bonds, including the fees and expenses of the Fiscal Agent and any persons, parties, consultants or attorneys employed pursuant to the Fiscal Agent Agreement, costs and legal expenses of foreclosure actions undertaken pursuant to the terms of the Fiscal Agent Agreement to the extent not recovered pursuant to statutory authorization, costs otherwise incurred by the District in order to carry out the authorized purposes of the Bonds, including statutory disclosure, for both the District and overseeing Developer Continuing Disclosure obligations, and reporting requirements and "Administrative Expenses" as defined in the Rate and Method.

**"Administrative Expense Fund"** means the fund of that name established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Administrative Expense Requirement"** means that amount specified by the District for Administrative Expenses, as set forth in, and subject to the provisions and limitations of the Fiscal Agent Agreement.

**"Annual Debt Service"** means, with respect to any Outstanding Bond, for each Bond Year, the sum of (a) the interest payable on such Bond in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

**"Authorized Investments"** means, subject to the Fiscal Agent Agreement, any of the following investments, if and to the extent the same are at the time legal for investment of the School District's funds:

(a) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, and which have a maximum term to maturity not to exceed three years.

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, and which have a maximum term to maturity not to exceed three years, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank.

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America, and which have a maximum term to maturity not to exceed three years:

- Senior debt obligations rated "AAA" by Moody's and "AAA" by Standard & Poor's issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System.

(d) Registered state warrants or treasury notes or bonds of the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State, which are rated in one of the two highest short-term or long-term rating categories by Moody's or Standard & Poor's.

(e) Registered bonds, notes, warrants or other evidences of indebtedness of any local agency of the State, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the local agency, where the interest on such local agency obligation is exempt from Federal and State income taxes and which are rated in one of the two highest short-term or long-term rating categories by Moody's or Standard & Poor's.

(f) Deposit accounts, time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, which may include the Fiscal Agent or its affiliates, or a state or federal savings and loan association; provided, that the certificates of deposit shall be one or more of the following:

- (1) Continuously and fully insured by the Federal Deposit Insurance Corporation.
- (2) Continuously and fully secured by securities described in clause (a) or (b) above which shall have a market value, as determined on a marked-to-market basis calculated at least weekly, and exclusive of accrued interest, or not less than 102% of the principal amount of the certificates on deposit.

(g) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Moody's and Standard & Poor's, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an "A" or higher rating for the issuer's debentures, other than commercial paper, by Moody's and Standard & Poor's, provided that purchases of eligible commercial paper may not exceed 180 days' maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation. Purchases of commercial paper may not exceed 20% of the proceeds of the Bonds.

(h) A repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York the long term debt of which is rated at least "A" by Moody's and Standard & Poor's, provided that all of the following conditions are satisfied:

- (1) (A) The agreement is secured by any one or more of the securities described in clause (a) above of this definition of Authorized Investments (the "Underlying Securities");
  - (B) The Underlying Securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least \$100,000,000 and which is independent of the issuer of the repurchase agreement (the "Holder of Collateral") and the Underlying Securities have been transferred to the Holder of Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
  - (C) The Underlying Securities are maintained at a market value, as determined on a marked-to-market basis calculated at least weekly, of not less than 103% of the amount so invested and at such levels and additional conditions not otherwise in conflict with the terms above as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach).
- (2) The repurchase agreement shall provide that if during its term the provider's rating by Moody's and Standard & Poor's is withdrawn or suspended or falls below "A-" by Standard & Poor's or "A3" by Moody's, as appropriate, the provider must within 10 days of receipt of direction from the District, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

(i) An investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution, the long-term unsecured obligations of which are rated "AA" or "Aa1" or better by Moody's and Standard & Poor's at the time of initial investment (the "Provider"). The investment agreement shall be subject to a downgrade provision with at least the following requirements:

- (1) Within five Business Days after the Provider's long-term unsecured credit rating has been reduced below "AA-" by Standard & Poor's or below "Aa3" by Moody's (these events are called "Rating Downgrades"), the

Provider shall give notice to the Fiscal Agent and the District and, within the five-day period, and for as long as the Rating Downgrade is in effect, shall deliver or transfer in the name of the District to the Fiscal Agent or a third party acceptable to the District acting solely as agent therefore (the Holder of Collateral) (other than by means of entries on the Provider's books) federal securities allowed as investments under clause (a) above with aggregate current market value equal to at least 105% of the principal amount of the investment agreement invested with the Provider at that time, and shall deliver additional such federal securities as needed to maintain an aggregate current market value equal to at least 105% of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly.

- (2) If the Provider's long-term unsecured credit rating is withdrawn, suspended, other than because of general withdrawal or suspension by Moody's or Standard & Poor's from the practice of rating that debt, or reduced below "A3" by Moody's or below "A-" by Standard & Poor's, the Provider shall give notice of the downgrade to the District and the Fiscal Agent and the District shall direct the Fiscal Agent to, upon five Business Days' written notice to the Provider, withdraw the investment agreement, with accrued but unpaid interest thereon to the date, and terminate such agreement.

(j) A taxable or tax exempt government money market portfolio mutual fund restricted to obligations with either maturities of one year or less or a dollar weighted average maturity of 120 days or less, and either issued, guaranteed or collateralized as to payment of principal and interest by the full faith and credit of the United States of America or rated in one of the three highest categories by Moody's or Standard & Poor's. Such money market funds may include funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services.

(k) The Local Agency Investment Fund referred to in Section 16429.1 of the Government Code of the State to the extent the Fiscal Agent may deposit and withdraw funds directly.

**"Authorized Representative(s)" or "District Representative(s)"** means an officer of the School District authorized to provide written directives on behalf of the District, which shall include the School District's Superintendent, Assistant Superintendent of Business Services and such other persons as shall be designated in writing by the School District.

**"Backup Annual Special Taxes"** shall have the meaning set forth in the Rate and Method, as applicable to Zone 1 of the District.

**"Board"** means the Governing Board of the Hemet Unified School District.

**"Bonds" or "2004 Special Tax Bonds"** means the Community Facilities District No. 2004-1 of the Hemet Unified School District 2004 Special Tax Bonds.

**"Bond Counsel"** means a firm of nationally recognized bond attorneys, initially Bowie, Arneson, Wiles & Giannone.

**"Bond Fund"** means the fund of that name established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Bond Register"** means the books which the Fiscal Agent shall keep or cause to be kept on which the registration and transfer of the Bonds shall be recorded.

**"Bond Year"** means each twelve month period extending from September 2 in one calendar year to September 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Closing Date to September 1, 2005, both dates inclusive.

**"Bondowner(s)"** or **"Owner(s)"** means the person or persons in whose name or names any Bond is registered.

**"Business Day"** means a day which is not a Saturday or a Sunday or a day on which banks in Los Angeles, California and New York, New York are not required or permitted to be closed.

**"Capitalized Interest Subaccount"** means that subaccount of the Interest Account of the Bond Fund established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Cash Deposit"** means a cash deposit provided by the Developer pursuant to the Fiscal Agent Agreement in the applicable Stated Amount.

**"Code"** means the Internal Revenue Code of 1986, as amended, and any successor provisions thereto.

**"Completion Date"** means the date on which the Project is completed and all Project Costs have been paid as evidenced by a certificate to that effect delivered to the Fiscal Agent by the District.

**"Construction Fund"** means the fund of that name established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Costs of Issuance"** means items of expense payable or reimbursable directly or indirectly by the District or School District and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, cost of reproducing and binding documents, closing costs, appraisal costs, filing and recording fees, fees and expenses of counsel to the District or School District, initial fees and expenses of the Fiscal Agent, including its first annual administration fee and fees of its counsel, expenses incurred by the District and the School District in connection with the issuance of the Bonds and the establishment of the District, Underwriter's discount, legal fees and charges, including Bond Counsel, special tax consultant's fees, appraiser's fees, market absorption consultant's fees, financial consultants' fees, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

**"Costs of Issuance Account"** means the account of that name within the Construction Fund established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Dated Date"** or **"Delivery Date"** means the date the Bonds are delivered.

**"Depository"** means any depository which holds Bonds pursuant to the terms of the Fiscal Agent Agreement, initially, with respect to the Bonds, The Depository Trust Company.

**"Developed Property"** shall have the same meaning set forth in the Rate and Method.

**"Developer"** means Hemet/San Jacinto Ventures, LLC, its respective successors to the Undeveloped Property or the Developed Property, or otherwise, and its assigns, excluding individual homeowners of residential lots with record title.

**"Dissemination Agent"** means David Taussig & Associates, Inc., or any successor dissemination agent appointed by the District pursuant to the District's Continuing Disclosure Certificate.

**"District"** means Community Facilities District No. 2004-1 of the Hemet Unified School District.

**"District Continuing Disclosure Certificate"** shall mean that certain Continuing Disclosure Certificate provided by the School District on behalf of the District, dated the Delivery Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

**"Developer Continuing Disclosure Certificate"** shall mean that certain Continuing Disclosure Certificate provided by the Developer, dated the Delivery Date, as originally executed or as it may be amended from time to time in accordance with the terms thereof.

**"EMWD"** means Eastern Municipal Water District.

**"EMWD Agreement"** means that Joint Community Facilities Agreement dated as of September 21, 2004, among the School District, the Developer and EMWD, as it may be amended from time to time.

**"EMWD Facilities"** means the water and sewer facilities owned by EMWD and provided pursuant to the EMWD Agreement.

**"EMWD Facilities Account"** means the account of that name within the Construction Fund established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Excess Investment Earnings"** shall mean an amount equal to the sum of:

(i) the excess of

(A) the aggregate amount earned from the Delivery Date on all Nonpurpose Investments in which Gross Proceeds are invested (other than amounts attributable to an excess described in this subparagraph (i)), over

(B) the amount that would have been earned if the yield on such Nonpurpose Investments (other than amounts attributable to an excess described in this subparagraph (i)) had been equal to the Yield on the Bonds,

plus

(ii) any income attributable to the excess described in paragraph (i).

In determining the amount of Excess Investment Earnings, there shall be excluded any amount earned on any fund or account which is used primarily to achieve a proper matching of revenues and annual debt service on the Bonds during each Bond Year and which is depleted at least once a year except for a reasonable carryover amount not in excess of the greater of one year's earnings on such fund or account or one-twelfth (1/12) of annual debt service on the Bonds, as well as amounts earned on said

earnings. The District intends that the Bond Fund, including the Principal Account and the Interest Account established therein, the Special Tax Fund and the Redemption Fund will be the type of funds described in the preceding sentence. The Fiscal Agent shall have no responsibility to determine Excess Investment Earnings and may rely on the calculations provided by the District or any arbitrage consultant retained by the District.

**"Federal Securities"** means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State of California for funds held by the Fiscal Agent:

(i) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America, including, without limitation, such of the foregoing which are commonly referred to as "stripped" obligations and coupons; or

(ii) any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.

**"Fiscal Agent"** means U.S. Bank National Association, a national banking association, and its successors and assigns or any and other fiscal agent which may be appointed pursuant to the Fiscal Agent Agreement.

**"Fiscal Agent Agreement"** means the Fiscal Agent Agreement, as amended or supplemented pursuant to the terms thereof.

**"Fiscal Year"** means the period from July 1 to June 30 in any year.

**"Fitch"** means Fitch Ratings, and its successors and assigns.

**"Gross Proceeds"** means any proceeds of the Bonds and any funds (other than proceeds of the Bonds) that are part of a reserve or replacement fund for the Bonds within the meaning of Section 1.148-1(b) of the Regulations.

**"Gross Taxes"** means the amount of all Special Taxes collected within Zone 1 of the District and proceeds from the sale of property located therein collected pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes.

**"Independent Financial Consultant"** means a consultant or firm of such consultants generally recognized to be qualified in the field of implementation and administration of community facilities districts, or the financial consulting field, appointed and paid by the District and who, or each of whom:

(1) is independent of the District and the School District or any of the property owners within the District;

(2) does not have any substantial interest, direct or indirect, with the District or any of the property owners within the District; and

(3) is not an officer or employee of the District or an owner, officer or employee of any of the property owners within the District, but who may be regularly retained to make annual or other reports to the District.

**"Interest Account"** means the account of that name established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Interest Payment Date"** means March 1 and September 1 of each year during which Bonds are Outstanding, commencing September 1, 2005.

**"Legislative Body"** means the Governing Board, acting as the Legislative Body of the District.

**"Letter(s) of Credit"** means that certain irrevocable, standby letter of credit issued or provided pursuant to the Fiscal Agent Agreement by a Letter of Credit Bank, or any reissuance or extension thereof, which Letter(s) of Credit shall be in the applicable Stated Amount and shall be for a term of no less than one year.

**"Letter of Credit Bank"** means the issuer from time to time of a Letter(s) of Credit and the respective successors and assigns of the issuer thereof and any surviving, resulting or transferee banking association or corporation with or into which it may be consolidated or merged or to which it may transfer all of its banking business, provided that such entity shall have a minimum Moody's long-term rating of "A" and short-term rating of "P-1", as evidenced by proof provided by the Letter of Credit Bank to the District and the Fiscal Agent, at all times during the term of the Letter(s) of Credit; provided, notwithstanding the foregoing, such issuer shall not be federally chartered.

**"Letter of Credit Fund"** means the fund by that name established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Mandatory Redemption Account"** means the account of that name within the Redemption Fund established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Mandatory Sinking Payments"** means the amounts to be applied to the redemption of the Bonds in accordance with the schedule set forth in the Fiscal Agent Agreement and any subsequent schedule set forth in any Supplement thereto.

**"Maximum Annual Debt Service"** means the maximum sum obtained for any remaining Bond Year prior to the final maturity on the Bonds by totaling the following for each Bond Year:

(1) the principal amount of all Outstanding Bonds payable in such Bond Year whether at maturity or by redemption together with a premium thereon, if any premium is payable; and

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

**"Mitigation Agreement"** means that certain School Facilities Funding and Mitigation Agreement Between Hemet Unified School District and Hemet/San Jacinto Ventures, LLC, entered into



by and between the School District and Developer, dated September 21, 2004, as it may be further amended from time to time.

**"Moody's"** means Moody's Investors Services.

**"Net Taxes"** means the amount of all Gross Taxes minus Administrative Expenses up to a maximum of \$30,000 per Fiscal Year (which shall increase 2% per Fiscal Year commencing with 2005-2006) as further set forth in the Fiscal Agent Agreement.

**"Nominee"** means the nominee of DTC, which may be DTC, as determined from time to time pursuant to the Fiscal Agent Agreement.

**"Nonpurpose Investments"** means any security, investment, obligation, annuity, investment-type property, specified private activity bond or any other type of investment property defined in Section 148 of the Code in which Gross Proceeds are invested (other than tax-exempt securities which are described in Section 103(a) of the Code) and which is not acquired to carry out the governmental purpose of the Bonds.

**"Optional Redemption Account"** means the account of that name within the Redemption Fund established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Ordinance"** means Ordinance No. CFD-01 adopted by the Board on October 5, 2004.

**"Outstanding"** means all Bonds theretofore issued by the District, except:

(1) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;

(2) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent pursuant to the terms of the Fiscal Agent Agreement; and

(3) Bonds paid and discharged pursuant to the Fiscal Agent Agreement

**"Participating Underwriter"** shall have the meaning ascribed thereto in the District Continuing Disclosure Certificate.

**"Prepaid Special Taxes"** means all Special Taxes prepaid to the District pursuant to Resolution No. 1344 of the School District during the term of the Fiscal Agent Agreement, less related Administrative Expenses.

**"Prepayment Account"** means the account of that name within the Special Tax Fund established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Principal Account"** means the account of that name within the Bond Fund established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Principal Corporate Trust Office"** means the corporate trust office of the Fiscal Agent, which, at the date of execution of the Fiscal Agent Agreement, is located at 633 West Fifth Street, 24<sup>th</sup> Floor, Los Angeles, California 90071, or such other office(s) as the Fiscal Agent may designate from time to time.

**"Project"** means the "CFD Facilities" or, any portion thereof, as defined in the Resolution of Formation and referred to in the Community Facilities District Report for the District dated September 21, 2004.

**"Project Costs"** means the costs of design, acquisition, construction and installation of the School Facilities, EMWD Facilities and all costs related thereto. Project Costs may include the payment, or prepayment, of lease payments necessary for the acquisition of all or part of the Project.

**"Purchase Price"** for the purpose of computation of the Yield of the Bonds, has the same meaning as the term "issue price" in Sections 1273 (b) and 1274 of the Code, and, in general, means the initial offering price to the public (not including bond houses and brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Bonds are sold or, if the Bonds are privately placed, the price paid by the original purchaser or the acquisition cost of the original purchaser. The term "Purchase Price," for the purpose of computation of the Yield of Nonpurpose Investments, means the fair market value of the Nonpurpose Investments on the date of use of Gross Proceeds for acquisition thereof, or, if later, on the date that Investment Property (as defined in Section 148(b)(2) and (3) of the Code) constituting a Nonpurpose Investment becomes a Nonpurpose Investment of the Bonds, as the case may be.

**"Rate and Method"** means the First Amended Rate and Method of Apportionment for Community Facilities District No. 2004-1 of Hemet Unified School District, as set forth in Ordinance No. CFD-01, as approved pursuant to the Act and as such may be amended or interpreted from time to time.

**"Rating Agencies"** means S&P, Moody's and Fitch.

**"Rebate Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Record Date"** means the 15th day of the calendar month preceding an Interest Payment Date whether or not such day is a business day.

**"Redemption Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"Regulations"** means any temporary, proposed or final regulations of the United States Department of Treasury with respect to obligations issued pursuant to Section 103 and Sections 141 to 150 of the Code.

**"Reserve Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Reserve Requirement"** means with respect to the Bonds, an amount, as of any date of calculation, equal to the least of (i) 10% of the original principal amount of the Bonds, less original issue discount, if any, plus original issue premium, if any, (ii) Maximum Annual Debt Service, or (iii) 125% of average Annual Debt Service on the Bonds.

**"Resolution of Issuance"** means Resolution No. 1363 of the Board providing for the issuance, sale and delivery of the Bonds.

**"Responsible Officer"** of the Fiscal Agent means and includes the president, every senior vice president, every vice president, every assistant vice president, every trust officer or any other Authorized Representative of the Fiscal Agent at its Principal Corporate Trust Office.

**"School Facilities Account"** means the account of that name within the Construction Fund established under and held by the Fiscal Agent pursuant to the Fiscal Agent Agreement.

**"School District"** means the Hemet Unified School District.

**"Securities Depositories"** means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a certificate delivered to the Fiscal Agent.

**"Sinking Fund Payment"** means the annual sinking fund payment to be deposited in the Sinking Fund Redemption Account of the Redemption Fund to redeem a portion of the Term Bonds.

**"Sinking Fund Redemption Account"** means the account of that name within the Redemption Fund established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Special Tax Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Special Taxes"** means the Zone 1 Developed Property special taxes, the Zone 1 Undeveloped Property special taxes, and the Zone 1 Backup special taxes levied by the Legislative Body within Zone 1 of the District pursuant to the Act, the Resolution of Formation, the Ordinance and the voter approval obtained at the Election.

**"Standard & Poors"** or **"S&P"** means Standard & Poors Ratings Group.

**"State"** means the State of California.

**"Stated Amount"** means, during each Fiscal Year in which any Cash Deposit(s) is required, or Letter(s) of Credit is in effect the estimated amount of Special Taxes to be levied on the property owned by the Developer in Zone 1 of the District during that Fiscal Year. The Stated Amount for Fiscal Year 2004-05 is \$248,142.56.

**"Supplement"** means any supplemental agreement amending or supplementing the Fiscal Agent Agreement.

**"Surplus School Facilities Fund"** means the fund of that name established under, and held by the Fiscal Agent pursuant to, the Fiscal Agent Agreement.

**"Tax Certificate"** means the certificate of that name to be executed by an authorized representative of the District on the closing date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

**"Term Bond"** means the Bonds maturing on September 1, 2035.

**"Underwriter"** means Southwest Securities, Inc.

**"Undeveloped Property"** shall have the same meaning set forth in the Rate and Method set forth in the Ordinance.

**"Yield"** means that yield which, when used in computing the present worth of all payments of principal and interest (or other payments in the case of Nonpurpose Investments which require payments in a form not characterized as principal and interest) on a Nonpurpose Investment or on the Bonds produces an amount equal to the Purchase Price of such Nonpurpose Investment or the Bonds, as the case may be, all computed as prescribed in the applicable Regulations.

**"Zone 1"** shall have the meaning set forth in the Rate and Method.

#### **AUTHORITY FOR ISSUANCE OF THE BONDS**

The Bonds are issued pursuant to the Act, the Resolution of Issuance and the Fiscal Agent Agreement in the amounts and maturities set forth in the Fiscal Agent Agreement (See "INTRODUCTION – General" and "THE 2004 BONDS – Authority for Issuance").

Limited Obligation. The Bonds are limited obligations of the District and shall be payable as to the principal thereof, interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and amounts in certain funds and accounts created pursuant to the Fiscal Agent Agreement, as specified therein. The Net Taxes are pledged for the payment of the Bonds pursuant to the terms of the Fiscal Agent Agreement.

The Bonds and interest thereon are not payable from the general fund of the District or the School District. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the School District is pledged for the payment of the Bonds or interest thereon, and no Owner of the Bonds may compel the exercise of the taxing power by the District or the School District or the forfeiture of any of their property. The principal of and interest on the Bonds and premiums upon the redemption thereof are not a debt of the District or the School District, the State of California nor any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any property or income, receipts or revenues of the District or the School District, except the Net Taxes which are, under the terms of the Fiscal Agent Agreement, pledged for the payment of the Bonds and interest thereon. Neither the members of the Legislative Body or the Board nor any persons executing the Bonds are liable personally for the Bonds by reason of the issuance thereof.

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

accounts therein) and the Rebate Fund shall not be construed as trust funds held for the benefit of the Bondowners.

In the event that the Fiscal Agent lacks sufficient amounts to make timely payment of principal, interest and premium upon redemption, if any, on the Bonds when due, such principal of and interest and premium on the Bonds shall be paid from available amounts held by the Fiscal Agent in the Special Tax Fund (and its accounts), Bond Fund (and its accounts), Reserve Fund, or Redemption Fund under the terms of the Fiscal Agent Agreement (not including those amounts deposited in the Construction Fund, Surplus School Facilities Fund, Administrative Expense Fund and the Rebate Fund), including the default and remedies provisions of the Fiscal Agent Agreement, as may be applicable, in accordance with such terms without preference or priority of interest over principal or principal over interest, or of any installment of principal or interest over any other installment of principal or interest, ratably to the aggregate amount of such principal and interest.

Nothing in the Fiscal Agent Agreement or any Supplement shall preclude the redemption of any Bonds subject to call and redemption prior to maturity, and payment of the Bonds from proceeds of refunding bonds issued under the Act, or under any other law of the State.

### **FUNDS AND ACCOUNTS**

The Fiscal Agent Agreement specifies funds and accounts to be maintained by the Fiscal Agent, as follows:

Special Tax Fund - The Special Taxes and other amounts constituting Gross Taxes collected by the District at any time (exclusive of (i) Prepaid Special Taxes received which shall be deposited into the Prepayment Account of the Special Tax Fund, and (ii) Special Taxes relating to property with respect to which a draw has been made on the corresponding Letter of Credit, or Cash Deposit, which shall be deposited into the Letter of Credit Fund to be used to reimburse the Letter of Credit Bank and/or the Developer), shall be transferred no later than 10 days after receipt thereof to the Fiscal Agent and shall be held in trust in the Special Tax Fund (exclusive of the Administrative Expense Requirement) for the benefit of the Bondowners and shall, exclusive of the Prepaid Special Taxes held in the Prepayment Account, be transferred or applied to the funds and accounts in the priority, at the times and in the amounts and in accordance with the following, as set forth in the Fiscal Agent Agreement: to pay the Administrative Expense Requirement (paid through the Administrative Expense Fund), interest on the Bonds (paid through the Interest Account of the Bond Fund), principal payments due on the Bonds (payable from the Principal Account of the Bond Fund), Mandatory Sinking Payments due during the current year (paid through the Sinking Fund Redemption Account of the Redemption Fund) and, if necessary, provide funds required to replenish the Reserve Fund to the Reserve Requirement. Any remaining Special Taxes and other amounts constituting Gross Taxes, if any, shall remain in the Special Tax Fund until the end of the Bond Year. At the end of the Bond Year, any remaining funds in the Special Tax Fund which are not required to cure a delinquency in the payment of principal and interest on the Bonds (including payment of Mandatory Sinking Payments due during the current Bond Year), to restore the Reserve Fund to the Reserve Requirement or to pay current or pending Administrative Expenses as provided for in the Fiscal Agent Agreement shall, without further action by any party, be transferred by the Fiscal Agent to the Surplus School Facilities Fund, free and clear of any lien or pledge thereon to be used in accordance with the Fiscal Agent Agreement for Project school facilities. Any funds which are required to cure any delinquency shall be retained in the Special Tax Fund and expended or transferred, at the earliest possible date, for such purpose (see "SECURITY FOR THE 2004 BONDS – Special Tax Fund").

Prepayment Account of the Special Tax Fund - Prepaid Special Taxes collected by the District (net of any costs of collection) shall be transferred, no later than 10 days after receipt thereof, to the Fiscal Agent and the District shall direct the Fiscal Agent to deposit the Prepaid Special Taxes in the Prepayment Account of the Special Tax Fund. The Prepaid Special Taxes shall be held in trust in the Prepayment Account for the benefit of the Bonds and shall be transferred by the Fiscal Agent to the Mandatory Redemption Account of the Redemption Fund to call Bonds on the next Interest Payment Date for which notice can be given in accordance with the special mandatory redemption provisions set forth in the Fiscal Agent Agreement.

Administrative Expense Fund - Upon receipt of Gross Taxes and the written direction of the District, the Fiscal Agent shall transfer from the Special Tax Fund to the Administrative Expense Fund the amount that the District has determined, and of which the District has notified the Fiscal Agent in writing prior to such transfer date, shall be necessary to bring the balance in the Administrative Expense Fund to equal the amount specified by the District as necessary to meet Administrative Expenses until the collection of Special Taxes in the next Fiscal Year ("Administrative Expense Requirement") as set forth in the Fiscal Agent Agreement.

Bond Fund - The Bond Fund (in which there is established an Interest Account (including the Capitalized Interest Subaccount) and a Principal Account) is used to disperse payments of principal and interest to the Bondowners on each respective Interest Payment Date. Monies in the Interest Account are allocated to the payment of interest due on each Interest Payment Date and monies in the Principal Account are allocated to the repayment of principal on the Bonds on the corresponding Interest Payment Date.

Reserve Fund - The Reserve Fund shall be initially funded from the proceeds of the Bonds in the amount of the Reserve Requirement. Notwithstanding the foregoing, in the event of a redemption or partial defeasance of the Bonds, the Reserve Requirement shall thereafter be re-determined by the District and communicated to the Fiscal Agent in writing and any funds in excess of such re-determined Reserve Requirement shall be utilized as set forth in the Fiscal Agent Agreement. (See "SECURITY FOR THE 2004 BONDS – Reserve Fund. ")

Except with respect to certain investment earnings, monies in the Reserve Fund shall be used for the purpose of (i) making transfers to the Bond Fund or Redemption Fund to pay the principal of, including Mandatory Sinking Payments, and interest and principal on Bonds when due to the extent that monies in the Interest Account and the Principal Account of the Bond Fund or monies in the Sinking Fund Redemption Account, including any funds drawn from the Letter of Credit Fund as provided in the Fiscal Agent Agreement, are insufficient therefore, (ii) making any required transfer to the Rebate Fund pursuant to the Fiscal Agent Agreement upon written direction from the District, (iii) making any transfers to the Bond Fund or Redemption Fund in connection with prepayments of the Special Taxes, (iv) paying the principal and interest due on Bonds in the final Bond Year, and (v) application to the defeasance of Bonds in accordance with the terms of the Fiscal Agent Agreement. If the amounts in the Interest Account or the Principal Account of the Bond Fund and the Sinking Fund Redemption Account of the Redemption Fund, including any funds drawn from the Letter of Credit Fund as provided in the Fiscal Agent Agreement, are insufficient to pay the principal of, including Mandatory Sinking Payments, or interest on the Bonds when due, the Fiscal Agent shall, one Business Day prior to the corresponding Interest Payment Date, withdraw from the Reserve Fund for deposit in the Interest Account and the Principal Account of the Bond Fund, or the Sinking Fund Redemption Account of the Redemption Fund, monies necessary for such purpose. Following any transfer to the Interest Account or the Principal Account of the Bond Fund, or the Sinking Fund Payment Account of the Redemption Fund, the Fiscal Agent shall notify the District of the amount needed to replenish the Reserve Fund to the Reserve

Requirement and the District shall collect such deficiency by including such amount in the next Special Tax levy to the extent of the permitted maximum Special Tax rates.

Monies in the Reserve Fund in excess of the Reserve Requirement (exclusive of Excess Investment Earnings specified in writing by the District) shall be withdrawn on each March 1 and applied as follows: (i) until such time as the School Facilities Account of the Construction Fund is closed in accordance with the provisions of the Fiscal Agent Agreement, all investment earnings on amounts in the Reserve Fund (exclusive of Excess Investment Earnings specified in writing by the District and funds needed to restore the Reserve Fund to the Reserve Requirement) shall be deposited into the School Facilities Account of the Construction Fund, provided, in the event Special Taxes are projected to be levied on Zone 1 Undeveloped Property for the next Special Tax levy, District shall give written instructions to the Fiscal Agent to transfer such interest earnings first to the Interest Account of the Bond Fund, and any remaining excess shall be transferred to the Principal Account of the Bond Fund, or to the Sinking Fund Redemption Account of the Redemption Fund to the extent required to make any principal payment or Mandatory Sinking Payments on the next following September 1, (ii) after expiration of the transfer under (i) above, thereafter all investment earnings on amounts in the Reserve Fund since the previous Interest Payment Date (exclusive of Excess Investment Earnings specified in writing by the District) shall be transferred to the Interest Account of the Bond Fund, and any remaining excess shall be transferred to the Principal Account of the Bond Fund, or to the Sinking Fund Redemption Account of the Redemption Fund to the extent required to make any principal payment or Mandatory Sinking Payments on the next following September 1. The Fiscal Agent shall transfer Excess Investment Earnings from Reserve Fund earnings upon written direction of the District pursuant to the Fiscal Agent Agreement (See "SECURITY FOR THE 2004 BONDS – Reserve Fund").

Reserve Fund Credit Facility - The Reserve Requirement, or any portion thereof, may be satisfied by crediting to the Reserve Fund monies, a letter of credit, a surety policy, or any other comparable credit facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; however, the long-term unsecured debt or claim-paying ability, as the case may be, of the provider of any such letter of credit, surety policy or any other comparable credit facility, must have a rating of at least "A1" from Moody's and "A+" from S&P (provided that the Fiscal Agent shall be under no obligation and have no responsibility whatsoever to independently determine or verify such rating other than at the time of delivery). In the event of the use of such a surety, the Fiscal Agent shall be provided with copies of all documents in regard thereto and shall, to the extent not in conflict with the provisions of the Fiscal Agent Agreement, conform to the forms thereof for purposes of submitting draws, and making reimbursements, thereunder.

Redemption Fund - The Redemption Fund includes an Optional Redemption Account, Sinking Fund Redemption Account and Mandatory Redemption Account. Each of the redemption accounts is used for the temporary retention of monies allocated to the redemption of Bonds corresponding to that account. Monies in each such account shall be applied solely for such redemption purpose (see "THE 2004 BONDS – Redemption").

Construction Fund - The Fiscal Agent Agreement establishes the Construction Fund, in which there is a School Facilities Account, an EMWD Facilities Account and a Costs of Issuance Account.

A portion of the proceeds of the Bonds shall be deposited in the School Facilities Account, in the EMWD Facilities Account and in the Costs of Issuance Account. Monies in the School Facilities Account shall be utilized to pay for Project Costs relating to acquisition and construction of school facilities. Bond proceeds deposited in the EMWD Facilities Account shall be utilized to pay for Project Costs relating to the EMWD Facilities and/or EMWD Fees as described in the EMWD Agreement and the Mitigation Agreement (see "INTRODUCTION – Purpose of the 2004 Bonds," "ESTIMATED

SOURCES AND USES OF FUNDS;" "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE 2004 BONDS"). Monies deposited into the Costs of Issuance Account shall be expended at the direction of the District for payment of Costs of Issuance. Amounts on deposit in the Construction Fund, including all accounts therein, are not pledged to the Bonds and such fund is not a trust fund held for the benefit of the Bondowners.

Rebate Fund - The Rebate Fund is established by the Fiscal Agent Agreement for the receipt and payment of arbitrage earnings to the United States government as required under the terms of the Fiscal Agent Agreement and the Tax Certificate. Amounts on deposit in the Rebate Fund, including all accounts therein, are not pledged to the Bonds and such fund is not a trust fund held for the benefit of the Bondowners.

Letter of Credit Fund - As a condition precedent to issuance of the Bonds and prior to the Delivery Date, the District shall cause the Developer to provide a Letter(s) of Credit, or cash deposit(s) ("Cash Deposit"), as the case may be, in the Stated Amount naming the Fiscal Agent as beneficiary. The Letter(s) of Credit or Cash Deposit(s) shall secure payment of Special Taxes levied within Zone 1 property owned by the Developer. (See, "SECURITY FOR THE 2004 BONDS – Cash Deposit; Letter of Credit.")

The Letter(s) of Credit or Cash Deposit(s) shall be in effect in each Fiscal Year that individual homeowners are record owners of less than 55% of the residential lots within Zone 1 of the District. On or before each June 1, commencing June 1, 2005, the District shall determine the number of residential lots owned by individual homeowners in Zone 1 of the District. If fewer than 55% of the residential lots are owned by individual homeowners, the District shall certify to the Fiscal Agent: (A) the number of such residential lots owned by individual homeowners and (B) the Stated Amount of the Letter of Credit or Cash Deposit required to be in effect during the next succeeding Fiscal Year (commencing on the next following August 1).

In the event fewer than 55% of the residential lots within Zone 1 of the District are owned by individual homeowners as of such June 1, then the Developer, shall provide to the Fiscal Agent, no later than the following July 15, an irrevocable written commitment(s) of a Letter of Credit Bank(s) to provide a Letter(s) of Credit in the Stated Amount or to extend the existing Letter(s) of Credit in an amount equal to the then-Stated Amount, or to make a Cash Deposit(s) as applicable, effective the following August 1, commencing August 1, 2005.

If a Letter(s) of Credit or Cash Deposit(s) is required to be in effect during the then-current Fiscal Year, and in the event the Fiscal Agent does not receive a corresponding written commitment from a Letter of Credit Bank by July 15 of that Fiscal Year, the Fiscal Agent shall immediately notify the District thereof, and upon the written direction of an Authorized Representative, immediately, with no further authorization or instruction, draw upon such Letter(s) of Credit in the full Stated Amount. The Fiscal Agent shall deposit the proceeds of such draw into the Letter of Credit Fund for use as described in the Fiscal Agent Agreement.

Notwithstanding the foregoing, the Letter(s) of Credit may be outstanding for less than the full Fiscal Year provided it is for a term of at least 12 months and further provided it may be drawn in full if not renewed or extended upon the termination date in the required Stated Amount. When renewing or extending the Letter(s) of Credit, the Developer shall request that the District calculate the amount of the Letter(s) of Credit for the proposed term of the renewed or extended Letter(s) of Credit, which calculation shall include amounts to cover applicable Special Tax projections for the next Fiscal Year.



If the District determines at any time that 55% or more of the residential lots within Zone 1 of the District are owned by individual homeowners, then it shall so certify in writing to the Fiscal Agent and direct the Fiscal Agent to release the Letter of Credit or Cash Deposit to the Letter of Credit Bank or Developer, as the case may be.

Upon the release of the Letter(s) of Credit, or Cash Deposit(s) pursuant to the terms of the Fiscal Agent Agreement and thereof, and upon the expenditure, pursuant to the terms of the Fiscal Agent Agreement, of all funds from the Letter of Credit Fund, the Fiscal Agent shall notify the District of such condition, and the Fiscal Agent shall close the Letter of Credit Fund.

Five Business Days prior to each Interest Payment Date, the Fiscal Agent shall determine whether amounts on deposit in the Special Tax Fund, after deducting Administrative Expenses authorized to be transferred pursuant to the Fiscal Agent Agreement, or the Bond Fund on that Interest Payment Date, will be sufficient to pay principal of and interest on the Bonds that will be due and payable on such Interest Payment Date and shall notify the District of any deficiency. If amounts in the Special Tax Fund or the Bond Fund will be insufficient to pay principal of and interest on the Bonds, the Fiscal Agent shall immediately notify the District in writing of such deficiency, and if such insufficiency is attributable to Developer's delinquency in the payment of Special Taxes for Zone 1 property within the District as determined by the District, upon the written direction of an Authorized Representative (and prior to any withdrawals from the Reserve Fund permitted by the Fiscal Agent Agreement), the Fiscal Agent shall draw upon the Letter of Credit or Cash Deposit, as the case may be; provided, however, that the amount of such draw (as set forth in said written direction of the Authorized Representative) shall be no greater than the amount of the delinquent Special Taxes levied on such Zone 1 property.

The Fiscal Agent shall deposit the proceeds of any such draw upon the Letter of Credit, or Cash Deposit, into the Letter of Credit Fund, one Business Day prior to the Interest Payment Date, and prior to any transfers from the Reserve Fund, transfer such amounts from the Letter of Credit Fund to the Bond Fund.

The District shall have no obligation to reimburse the Letter of Credit Bank(s) for any such draw on any Letter of Credit, or the Developer for the Cash Deposit, except from: (i) any proceeds of the draw on the Letter of Credit and any interest earnings thereon not required to pay debt service on the Bonds on such Interest Payment Date; and (ii) delinquent Special Taxes subsequently received by the District with respect to such Zone 1 property within the District. Draws upon an individual Letter of Credit or Cash Deposit, as the case may be, shall not bar or otherwise preclude the District from taking any action(s) or enforcing any remedies, including but not limited to foreclosure actions, against the corresponding Zone 1 property within the District for satisfaction of unpaid Special Taxes.

In the event the Fiscal Agent draws upon a Letter of Credit or Cash Deposit, as the case may be, as described in the Fiscal Agent Agreement, the Fiscal Agent shall immediately deposit the proceeds of such draw into the Letter of Credit Fund and, pending any transfer to the Bond Fund for the purposes described in the Fiscal Agent Agreement, such proceeds shall be invested and reinvested by the Fiscal Agent in Authorized Investments at the written instruction of an Authorized Representative. At no time shall the proceeds of a draw on any Letter of Credit or Cash Deposit, as the case may be, held in the Letter of Credit Fund be invested by the Fiscal Agent at a yield exceeding the Yield on the Bonds. Investment earnings and profits from such investments shall be retained in the Letter of Credit Fund.

In the event that Developer provides a Cash Deposit in lieu of a Letter of Credit, such monies shall be deposited into the Letter of Credit Fund and invested by the Fiscal Agent at the direction of the District in Authorized Investments at a rate not in excess of the Yield on the Bonds. On or after March 2 and September 2 of each year, commencing September 2, 2005, any earnings on monies held in the Letter

of Credit Fund in excess of the Stated Amount shall, upon the written request of Developer confirmed in writing by the District, be mailed by the Fiscal Agent by check to Developer provided that (i) such earnings are not required to pay principal or interest on the Bonds on the following Interest Payment Date as a result of delinquencies in the payment of Special Taxes by the Developer and (ii) the District confirms that the Developer is not delinquent on Special Taxes then payable.

If at any time an Authorized Representative provides written certification to the Fiscal Agent that (i) 55% or more of the residential lots within Zone 1 of the District for which a Letter of Credit or Cash Deposit has been posted are owned by individual homeowners, (ii) such monies are not required to pay principal or interest on the Bonds on the following Interest Payment Date as a result of delinquencies in the payment of Special Taxes by the Developer, and (iii) Developer is not delinquent on Special Taxes then payable, then the Fiscal Agent shall immediately return all (or such portion of the) amounts on deposit in the Letter of Credit Fund to Developer or Letter of Credit Bank, as the case may be.

In the event any Letter of Credit Bank wrongfully refuses to honor any drawing made on any Letter of Credit, the District, on behalf of the Owners of the Bonds, shall immediately bring an action and pursue any remedy available at law or in equity for the purpose of compelling the corresponding Letter of Credit Bank to honor such drawing and to enforce the provisions of the corresponding Letter of Credit; provided, however, that the foregoing shall not be construed to require the District to expend any funds other than monies in the Administrative Expense Fund available for such purposes.

Surplus School Facilities Fund - Moneys in the Surplus School Facilities Fund may be used by the District for acquisition and/or construction of the Project school facilities; to make deposits to the Rebate Fund under the Fiscal Agent Agreement for the purposes of paying rebatable arbitrage of and when such is due in accordance with the Tax Certificate and the Regulations; or, at the option of the District, for the optional redemption of any of the Bonds under the terms of the Fiscal Agent Agreement.

The Surplus School Facilities Fund shall be funded from surplus Net Taxes transferred to the Surplus School Facilities Fund from the Special Tax Fund pursuant to the Fiscal Agent Agreement (see, Special Tax Fund above). Disbursements from the Surplus School Facilities Fund for expenditures on the Project school facilities shall be made by the Fiscal Agent upon receipt of an Authorized Representative's certificate in substantially the form attached to the Fiscal Agent Agreement. Monies in the Surplus School Facilities Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement and are not subject to the rebate requirements set forth therein. Interest earnings and profits from such investment and deposit shall remain therein and be applied in the manner provided in the Fiscal Agent Agreement. Amounts on deposit in the Surplus School Facilities Fund, including all accounts therein, are not pledged to the Bonds and such fund is not a trust fund held for the benefit of the Bondowners.

Investments - The Fiscal Agent shall maintain separate books and records regarding the investment of monies in any of the funds, accounts or subaccounts established under the Fiscal Agent Agreement. Authorized Investments shall be deemed at all times to be a part of such funds, accounts or subaccounts. Any loss resulting from such Authorized Investments shall be charged to such funds, accounts or subaccounts. Subject to limitations set forth as to each of the funds, accounts or subaccounts in the Fiscal Agent Agreement, limitations as to maturities set forth in the Fiscal Agent Agreement and any additional limitations or requirements established by the District, and consistent with all the foregoing, the Fiscal Agent shall invest amounts on deposit in all funds, accounts or subaccounts in Authorized Investments as directed in writing by the District, subject to all restrictions set forth in the Fiscal Agent Agreement. (See, "SECURITY FOR THE 2004 BONDS – Investment of Money in Funds.")

## **REDEMPTION OF BONDS**

Designated maturities of the Bonds may be redeemed prior to maturity, in whole or in part, at the option of the District, on September 1, 2012, or on any Interest Payment Date thereafter prior to maturity, pro rata among maturities and by lot within a maturity, at the redemption prices set forth in the Fiscal Agent Agreement (see "THE 2004 BONDS – Redemption").

The Term Bond is subject to mandatory redemption from Mandatory Sinking Payments deposited into the Sinking Fund Redemption Account to redeem that Outstanding Term Bond maturing on each September 1, as specified in the Fiscal Agent Agreement.

The Bonds are also subject to special mandatory redemption prior to their stated maturities, in whole, or in part, on any Interest Payment Date for which notice can timely be given under the terms of the Fiscal Agent Agreement from monies on deposit in the Prepayment Account of the Special Tax Fund, pro rata among maturities and by lot within a maturity, in integral multiples of \$5,000, at the redemption prices set forth in the Fiscal Agent Agreement (see "THE 2004 BONDS – Redemption").

The Fiscal Agent shall select the Bonds subject to optional redemption, mandatory sinking fund redemption or special mandatory redemption from Prepaid Special Taxes in accordance with the terms of the Fiscal Agent Agreement.

## **COVENANTS**

So long as any of the Bonds issued pursuant to the Fiscal Agent Agreement are Outstanding and unpaid, the District makes the following covenants (to be performed by the District or its proper officers, agents or employees) with the Owners under the provisions of the Act and the Fiscal Agent Agreement and any Supplement, which covenants are necessary, convenient and desirable to secure the Bonds; provided, however, that said covenants do not require the District to expend any funds or monies other than the Net Taxes or any monies deposited in the funds and accounts created under the Fiscal Agent Agreement and legally available therefor.

Covenant 1. Punctual Payment. The District shall duly and punctually pay, or cause to be paid, the principal of and interest on every Bond issued pursuant to the Fiscal Agent Agreement, together with the premium thereon, if any be payable, on the date, at the place and in the manner mentioned in the Bonds and in accordance with the Fiscal Agent Agreement and any Supplement to the extent Net Taxes are available therefor, and that the payments into the Bond Fund and the Reserve Fund shall be made, all in strict conformity with the terms of the Bonds and the Fiscal Agent Agreement, and that it shall faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement and any Supplement and of the Bonds issued pursuant to the Fiscal Agent Agreement, and that time of such payment and performance is of the essence of the District's contract with the Bondowners.

Covenant 2. Levy and Collection of Special Taxes. Subject to the maximum Special Tax rates, the District shall comply with all requirements of the Act so as to assure the timely collection of the Special Taxes, including without limitation, the enforcement of delinquent Special Taxes.

On or before each June 1, commencing June 1, 2005, the Fiscal Agent shall provide a written notice to the District stating the amounts then on deposit in the various funds and accounts established by the Fiscal Agent Agreement as well as Fiscal Agent fees coming due during the next Fiscal Year. The receipt of such notice by the District shall in no way affect the obligations of the District under the following paragraphs. Upon receipt of a copy of such notice, the District shall communicate with the

Riverside County Treasurer-Tax Collector or other appropriate official of the County of Riverside to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The District shall retain an Independent Financial Consultant to assist in the levy of the Special Taxes each Fiscal Year, commencing Fiscal Year 2005-2006, in accordance with the Ordinance, such that the computation of the levy is complete before the final date on which the Riverside County Treasurer-Tax Collector shall accept the transmission of the Special Tax amounts for the parcels within Zone 1 of the District for inclusion on the next secured tax roll. The first such levy shall occur in Fiscal Year 2005-2006. Upon the completion of the computation of the amounts of the levy, and approval by the Legislative Body, the District shall prepare or cause to be prepared, and shall transmit to the Riverside County Treasurer-Tax Collector, such data as the Riverside County Treasurer-Tax Collector requires to include the levy of the Special Taxes on the next secured tax roll.

The District shall fix and levy the amount of Special Taxes within Zone 1 of the District required for the payment of principal of and interest on Outstanding Bonds becoming due and payable during the ensuing year including any necessary replenishment or expenditure of the Reserve Fund for the Bonds, an amount equal to the Administrative Expense Requirement and any additional amounts necessary for expenses incurred in connection with administration or enforcement of delinquent Special Taxes.

The Special Taxes shall be payable and collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property; provided, the Legislative Body may provide for direct collection of the Special Taxes in certain circumstances.

In order to determine if there are delinquencies with respect to the payment of the Special Taxes, no later than February 15 and June 15, commencing February 15, and June 15, 2005, the District shall reconcile or cause to be reconciled the amount of Special Taxes levied to the amount of Special Taxes actually received by the District.

The fees and expenses of the Independent Financial Consultant retained by the District to assist in computing the levy of the Special Taxes pursuant to the Fiscal Agent Agreement and any reconciliation of amounts levied to amounts received, as well as the costs and expenses of the District (including a charge for District staff time) in conducting its duties pursuant to the Fiscal Agent Agreement shall be an Administrative Expense pursuant to the Fiscal Agent Agreement.

### Covenant 3. Commence Foreclosure Proceedings.

Not later than August 1 of each Fiscal Year, the District shall compare the amount of Special Taxes levied in Zone 1 of the District to the amount of Special Taxes received by the District, and:

(A) Individual Delinquencies. If the District determines that (i) any single parcel is subject to a Special Tax delinquency in the aggregate amount of \$5,000 or more or (ii) any owner owns one or more parcels subject to a Special Tax delinquency in an aggregate amount of \$5,000 or more, then the District shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the District within 90 days of such determination to the extent permissible under applicable law.

(B) Aggregate Delinquencies. If the District determines that the total amount of delinquent Special Taxes for the prior Fiscal Year for Zone 1 of the District (including the total of delinquencies under paragraph (A) above) exceeds 5% of the total Special Taxes due and payable for the prior Fiscal Year, the District shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land within Zone 1 of the District with a Special Tax delinquency.

Covenant 4. Against Encumbrances. The District shall not encumber, pledge or place any charge or lien upon any of the Net Taxes or other amounts pledged to the Bonds superior to, or on a parity with, the pledge and lien in the Fiscal Agent Agreement created for the benefit of the Bonds, except as permitted by Covenant 14 hereinafter.

Covenant 5. Modification of Maximum Authorized Special Tax. The District covenants that no modification of the maximum authorized Special Taxes in the District shall be approved by the District unless it is confirmed in writing, by an Independent Financial Consultant, that, immediately subsequent to such modifications: (i) the amount of the maximum Special Taxes on Zone 1 Developed Property (as defined in the Rate and Method), pursuant to the Act and the applicable resolutions and ordinances of the District is at least 1.10 times Maximum Annual Debt Service plus Administrative Expenses on all Outstanding Bonds; and (ii) the amount of the maximum Special Taxes that may be levied by the District on the then-existing owner occupied Zone 1 Developed Property (as confirmed by certificates of occupancy) pursuant to the Act and the applicable resolutions and ordinances of the District is at least 1.00 times Maximum Annual Debt Service plus Administrative Expenses on all Outstanding Bonds.

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

Covenant 6. Protection of Security and Rights of Owners. The District shall preserve and protect the security of the District and the rights of the Owners, and shall warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the District, the Bonds shall be incontestable by the District.

Covenant 7. Compliance with Law, Completion of Project. The District shall comply with all applicable provisions of the Act and law in completing the acquisition and construction of the Project; provided, that the District shall have no obligation to advance any funds to complete the Project in excess of the amounts available therefore in the School Facilities Account and EMWD Facilities Account of the Construction Fund.

Covenant 8. Books and Accounts. The District shall keep, or cause to be kept, proper books of records and accounts, separate from all other records and accounts of the Bonds, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund including the Prepayment Account. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or of the Owners of not less than ten percent of the principal amount of the Bonds then Outstanding or their representatives authorized in writing.

Covenant 9. Tax Covenant. The District covenants and represents that until the last Bonds shall have been fully paid or redeemed, the District shall comply with all requirements of the Tax Certificate, the Code and all applicable Regulations, such that the interest on the Bonds shall remain excluded from gross income for federal income tax purposes.

Covenant 10. Additional Tax Covenants. The District covenants, without limiting the generality of Covenant 9, that:

(a) the District shall make no use of the proceeds of the Bonds which at any time shall cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and applicable Regulations;

(b) the District shall ensure that the payment of principal and interest on the Bonds shall not be directly or indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) and no portion of the monies contained in any of the funds or accounts created in the Fiscal Agent Agreement shall be (i) used in making loans guaranteed by the United States (or any agency or instrumentality thereof); (ii) invested directly or indirectly in deposits or accounts insured by the Federal Deposit Insurance Corporation, National Credit Union Administration or any other similar federally chartered corporation; (iii) otherwise invested directly or indirectly in obligations guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof); except (a) investments during the initial temporary period following issuance of the Bonds until the Completion Date; (b) investment of amounts held in the Reserve Fund, or other reserve funds satisfying Section 148(d) of the Code; (c) investment of amounts held in the Special Tax Fund, Bond Fund and other bona fide debt service funds; (d) for investments in obligations issued by the United States Treasury; (e) for investments in obligations guaranteed by the Federal National Mortgage Association, Government National Mortgage Association or Federal Home Loan Mortgage Corporation; or, (f) investments permitted under Regulations issued pursuant to Section 149(b)(3)(B) of the Code.

(c) the District shall ensure that no portion of the monies contained in any of the funds or accounts created in the Fiscal Agent Agreement shall be used so as to cause any of the Bonds to meet the "private activity bond" tests of Section 141 of the Code and any Regulations issued thereunder;

(d) the District agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and the applicable Regulations and the Fiscal Agent Agreement and any further documents executed in connection with the Bonds. This covenant shall survive payment in full or defeasance of the Bonds. The District specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined above the amounts required to be so paid by the Fiscal Agent Agreement and further documents executed in connection with the Bonds, the Code and the Regulations;

(e) the District (i) shall neither invest Gross Proceeds nor cause Gross Proceeds to be invested in Nonpurpose Investments if the Yield on such Nonpurpose Investments would be less than the Yield that would have resulted in an arm's length transaction; (ii) shall not sell or otherwise dispose of or cause to be sold or otherwise disposed of Nonpurpose Investments if such sale or disposition would result in a smaller profit or larger loss than would have resulted from a sale at fair market value arrived at in an arm's length transaction; (iii) shall keep a detailed accounting of all transactions contemplated under the Fiscal Agent Agreement or in any way relating to the receipt or disbursement of any of the Gross Proceeds of the Bonds for a period of six years after the later of the date of payment of all Excess Investment Earnings to the United States or the date the District disburses the last of the Gross Proceeds of the Bonds; and

(f) notwithstanding any provision of the Fiscal Agent Agreement, if the District shall provide to the Fiscal Agent an opinion of Bond Counsel that any specified action required under the Fiscal Agent Agreement is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds, the Fiscal Agent may conclusively rely on such opinion in complying with the requirements of the Fiscal Agent Agreement, and the covenants under the Fiscal Agent Agreement shall be deemed to be modified to that extent notwithstanding the provisions of the Fiscal Agent Agreement.

Covenant 11. Further Assurances. The District shall adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the obligations and covenants under the Fiscal Agent Agreement and any Supplement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Fiscal Agent Agreement and in any Supplement.

Covenant 12. Additional Opinion(s). The District shall not make any change in requirements or procedures or take any action, as to which change or action the Fiscal Agent Agreement or related documents require an opinion of Bond Counsel, unless it obtains an opinion of Bond Counsel to the effect that (a) interest on the Bonds was excluded from gross income for federal income tax purposes from their date of issuance until the date of such change, assuming compliance with the covenants in the Fiscal Agent Agreement as they were in effect prior to the change (except that such opinion need not be given as to any interest for which a similar opinion has previously been given and remains in effect subsequent to such change), and (b) assuming continued compliance by the District with the covenants as changed, interest on the Bonds is excluded from gross income for purposes of federal income taxation.

Covenant 13. Tender of Bonds. The District shall not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53344.2, 53356.1 and 53356.5 of the California Government Code in any manner which would be inconsistent with the interests of the Owners and, in particular, shall not permit the tender of Bonds in full or partial payment of Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender shall not result in the District having insufficient Net Taxes to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

Covenant 14. No Additional Special Tax Bonds or Obligations. The District shall not issue any additional bonds, notes or other similar evidences of indebtedness payable, in whole or in part, out of Net Taxes except: (i) bonds issued to fully or partially refund the Outstanding Bonds; or (ii) subordinate bonds, notes or other similar evidences of indebtedness.

Continuing Disclosure Covenant. The District covenants and agrees that it shall comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of the Fiscal Agent Agreement, failure of the District to comply with its obligations under the Continuing Disclosure Agreement shall not be considered an event of default under the Fiscal Agent Agreement, and the sole remedy, in the event of any failure of the District to comply with the Continuing Disclosure Agreement, shall be an action to compel performance thereof. The Fiscal Agent, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds and upon being provided with indemnity reasonably satisfactory to the Fiscal Agent, shall, or any Bondowner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Covenant. For purposes of this Covenant, "Beneficial Owners" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to

dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the Owner of any Bonds for federal income tax purposes.

### **AMENDMENTS TO FISCAL AGENT AGREEMENT**

The District may from time to time, and at any time, without notice to or consent of any of the Owners, adopt Supplements for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provision in the Fiscal Agent Agreement which may be inconsistent with any other provision in the Fiscal Agent Agreement or to make any other provision with respect to matters or questions arising under the Fiscal Agent Agreement, or in any Supplement, provided that such action shall not have a material adverse effect on 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 Fiscal Agent Agreement which are not contrary to or inconsistent with the Fiscal Agent Agreement as theretofore in effect;

(c) to modify, alter, amend or supplement the Fiscal Agent Agreement in any other respect which is not materially adverse to the Bondowners including, but not limited to, providing for the rating or insuring of the Bonds.

Exclusive of amendments supplemental to the Fiscal Agent Agreement covered by the first paragraph above, the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to and approve the adoption by the District of such amendments or orders supplemental to the Fiscal Agent Agreement 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 Fiscal Agent Agreement; provided, however, that nothing in the Fiscal Agent Agreement shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal of, or the payment date of interest on, any Bonds, (b) a reduction in the principal amount of, or redemption premium on, any Bonds or the rate of interest thereon, (c) a preference or priority of any Bonds over any other Bonds, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplement, without, in the case of (a) or (b), the consent of the affected Owner, or, in the case of (c) or (d), the consent of the Owners of all Bonds then Outstanding.

### **FISCAL AGENT**

The Fiscal Agent is appointed and takes authorized actions under the terms of the Fiscal Agent Agreement. The initial Fiscal Agent may be removed or replaced by the District upon 30 days' prior written notice (except during the continuance of an event of default) or may resign in favor of a successor Fiscal Agent. The Fiscal Agent Agreement provides for certain minimum qualifications of the Fiscal Agent and provides for notice and procedures in the event a successor Fiscal Agent is required or appointed.

The duties of the Fiscal Agent are specified within the Fiscal Agent Agreement and include mailing interest payments to the Owners, selecting Bonds for redemption pursuant to the terms of the Fiscal Agent Agreement, giving notice of redemption and meetings of the Owners, maintaining the Bond Register and maintaining and administering the funds and accounts established pursuant to the Fiscal Agent Agreement. The Fiscal Agent also performs all other acts authorized or directed of the Fiscal Agent pursuant to the terms of the Fiscal Agent Agreement.



The Fiscal Agent Agreement provides that the recitals of fact and all promises, covenants and agreements contained therein and in the Bonds are to be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Fiscal Agent Agreement or the Bonds. The Fiscal Agent Agreement provides for certain protections from liability of the Fiscal Agent except for its own negligence or willful misconduct, as further specified in the Fiscal Agent Agreement.

### **EVENTS OF DEFAULT, REMEDIES**

Events of Default. Any one or more of the following events shall constitute an "event of default":

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

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

(c) default by the District in the observance of any of the other agreements, conditions or covenants on its part in the Fiscal Agent Agreement or in the Bonds contained, and the continuation of such default for a period of 30 days after the District shall have been given notice in writing of such default by the Fiscal Agent, provided that if within 30 days the District has commenced curing of the default and diligently pursues elimination thereof, such period shall be extended to permit such default to be eliminated; provided, any noncompliance with the terms of the Continuing Disclosure Covenant under the Fiscal Agent Agreement shall not be an event of default under the terms of the Fiscal Agent Agreement.

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 or her 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 Fiscal Agent Agreement;

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

(c) upon the happening of an event of default (as defined above), 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 Fiscal Agent Agreement, or in the 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 to the respective Owners of the Bonds at the respective dates of maturity, provided in the Fiscal Agent Agreement, out of the Net Taxes pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Fiscal Agent Agreement.

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

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the 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 conferred in the Fiscal Agent Agreement 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 Fiscal Agent Agreement as now or thereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

### **DEFEASANCE**

Any Outstanding Bond(s) shall be deemed to have been paid within the meaning expressed in the Fiscal Agent Agreement if such Bond is paid in any one or more of the following ways:

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

(b) by depositing with the Fiscal Agent, or a designated bank or trust company as escrow holder, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund and available for such purpose, is fully sufficient to pay the principal of and interest and any premium on such Bond as and when the same shall become due and payable; or

(c) by depositing with the Fiscal Agent, or a designated bank or trust company as escrow holder, in trust, noncallable direct obligations of, or obligations guaranteed by, the United States of America, in which the District may lawfully invest its money, in such amount as certified by a nationally recognized certified public accountant which shall, together with the interest to accrue thereon and monies then on deposit in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund available for such purpose, together with the interest to accrue thereon, be fully sufficient to pay and discharge the principal of and interest and any premium on such Bond as and when the same shall become due and payable;

then, notwithstanding that any such Bond shall not have been surrendered for payment, all obligations of the District under the Fiscal Agent Agreement, and any Supplement, with respect to such Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bonds not so surrendered and paid, all sums due thereon and except for the specified covenants and requirements of the District contained and identified in the Fiscal Agent Agreement.

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**APPENDIX E**

**FORM OF COMMUNITY FACILITIES DISTRICT  
CONTINUING DISCLOSURE AGREEMENT**

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and entered into as of December 1, 2004, by and among the Hemet Unified School District, on behalf of Community Facilities District No. 2004-1 of the Hemet Unified School District (the "Community Facilities District"), David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the "Dissemination Agent") and U. S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America (the "Bank") in its capacity as Fiscal Agent (the "Fiscal Agent") in connection with the issuance of \$3,700,000 aggregate principal amount of Community Facilities District No. 2004-1 of the Hemet Unified School District Community Facilities District 2004 Special Tax Bonds (the "2004 Bonds");

**W I T N E S S E T H :**

**WHEREAS**, pursuant to the Fiscal Agent Agreement, dated as of December 1, 2004 (the "Fiscal Agent Agreement"), by and between Community Facilities District No. 2004-1 of the Hemet Unified School District (the "Community Facilities District") and the Fiscal Agent, the Community Facilities District has issued the Community Facilities District No. 2004-1 of the Hemet Unified School District 2004 Special Tax Bonds (the "2004 Bonds"), in the aggregate principal amount of \$3,700,000; and

**WHEREAS**, the 2004 Bonds are payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Purpose of the Disclosure Agreement. The Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners and beneficial owners of the 2004 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement 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 Community Facilities District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

"Annual Report Date" shall mean January 30 next following the end of the Community Facility District's fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

"Community Facilities District" shall mean Community Facilities District No. 2004-1 of the Hemet Unified School District.

"Disclosure Representative" shall mean the Assistant Superintendent, Business Services of the School District.

“Dissemination Agent” shall mean David Taussig & Associates, Inc., or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

“Participating Underwriter” shall mean Southwest Securities, Inc.

“Repository” shall mean each National Repository and each State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 30, 2006, provide to each Repository, to the Fiscal Agent and to the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. 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 School District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if not available by that date. If the School District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to January 30, in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the Annual Report. The Community Facilities 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 Community Facilities District and shall have no duty or obligation to review such Annual Report. The Annual Report may be provided in electronic format to each Repository and the Participating Underwriter and may be provided through the services of a “central post office” approved by the Securities and Exchange Commission.

(b) If the Community Facilities District is unable to provide to the Repositories and to the Participating Underwriter an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repositories and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

- (c) The Dissemination Agent shall:
  - (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;
  - (ii) provide any Annual Report received by it to each Repository, the Fiscal Agent and the Participating Underwriter as provided herein; and
  - (iii) if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of the Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

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

(a) Audited Financial Statements of the School District prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available, at the time required for filing, unaudited financial statements shall be submitted with the Annual Report, and audited financial statements shall be submitted once available.

(b) The following information regarding the 2004 Bonds any refunding bonds issued by the Community Facilities District:

- (i) Principal amount of 2004 Bonds and or any bonds issued to refund the 2004 Bonds of CFD No. 2004-1 outstanding as of a date within 45 days preceding the date of the Annual Report;
- (ii) Balance in the 2004 Special Tax Fund and the Bond Fund as of a date within 60 days preceding the date of the Annual Report;
- (iii) Balance in the Reserve Fund and statement of the Reserve Requirement as of a date within 60 days preceding the date of the Annual Report;
- (iv) Balance in the Construction Fund, and each account or subaccount thereunder, as of a date within 45 days preceding the date of the Annual Report, and of any other fund or account held under the terms of the Fiscal Agent Agreement not referenced in clauses (ii), (iii) or (iv) hereof;
- (v) A table summarizing assessed value-to-lien ratios for the property in the Community Facilities District and by Rate and Method of Apportionment of Special Taxes land use categories. The assessed values in such table will be determined by reference to the value of the parcels within the Community Facilities District on which the Special Taxes are levied, as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 2 next preceding the Annual Report Date. The lien values in such table will include all 2004 Bonds and any refunding

bonds of the Community Facilities District and all other debt secured by a special tax or assessments levied on parcels within the Community Facilities District.

- (vi) Information regarding the amount of the annual special taxes levied in the Community Facilities District, amount collected, delinquent amounts and percent delinquent for the most recently completed fiscal year;
- (vii) Status of foreclosure proceedings of parcels within the Community Facilities District, if any, and summary of results of foreclosure sales, if applicable;
- (viii) A land ownership summary listing property owners responsible for more than 5% of the Special Tax levy as shown on the assessment roll of the Riverside County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the Community Facilities District owned by such property owners, and the assessed value of such property, as shown on such assessment roll;
- (ix) Concerning delinquent parcels as of the immediately preceding November 1 (if applicable);
  - number of parcels in Community Facilities District delinquent in payment of Special Tax,
  - total of such delinquency and percentage of delinquency in relation to total Special Tax levy,
  - status of the actions taken by the School District and/or the Community Facilities District related to any foreclosure proceedings upon delinquent properties within the District.
- (x) identity of any delinquent taxpayer obligated for greater than 5% of the annual Special Tax levy as of the immediately preceding November 1, if applicable, plus;
  - assessed value of applicable properties, and
  - summary of results of foreclosure sales, if available.
- (xi) a copy of any report for or concerning the Community Facilities District as of the immediately preceding October 31 required under State law; and
- (xii) Any changes to the Rate and Method of Apportionment of Special Tax of the Community Facilities District approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Community Facilities District shall provide such further

information, if any, as may be necessary to make the required statements required under 4(b), in the light of the circumstances under which they are made, not misleading for purposes of applicable federal securities laws.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Community Facilities District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Community Facilities 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 Community Facilities District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2004 Bonds and any refunding bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities; and
- (xi) Rating changes.

(b) The Fiscal Agent shall, within five business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x) and (xi) above shall mean actual knowledge by an officer at the corporate trust office of the Fiscal Agent. The Fiscal Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) Whenever the Community Facilities District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the Community Facilities District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the Community Facilities District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Community Facilities District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to each Repository or the Municipal Securities Rulemaking Board and each State Repository, if any.

(e) If in response to a request under subsection (b), the Community Facilities District determines that the Listed Event would not be material under applicable Federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2004 Bonds pursuant to the Fiscal Agent Agreement.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District's obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the 2004 Bonds, (ii) prior redemption of the 2004 Bonds or (iii) payment in full of all the 2004 Bonds. If such determination occurs prior to the final maturity of the 2004 Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be David Taussig & Associates, Inc. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal



requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2004 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2004 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2004 Bonds in the manner provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or beneficial owners of the 2004 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

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

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Community Facilities 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 Community Facilities District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Community Facilities District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of any Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2004 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), any owner or beneficial owner of the 2004 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the

event of any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Section 7.02 of the Fiscal Agent Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the 2004 Bonds, the Community Facilities District or any other matter except as expressly set out herein, provided that no provision of this Disclosure Agreement shall limit the duties or obligations of the Fiscal Agent under the Fiscal Agent Agreement. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the Fiscal Agent Agreement and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the 2004 Bonds or the Community Facilities District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent and the Fiscal Agent shall be paid compensation by the Community Facilities District for their services provided hereunder and under the Developer Continuing Disclosure Agreements dated as of December 1, 2004, by and among each Developer, the Fiscal Agent and the Dissemination Agent in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent and the Fiscal Agent in the performance of their duties hereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the 2004 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the 2004 Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Community Facilities District: Community Facilities District No. 2004-1 of the Hemet Unified School District  
2350 West Latham Avenue  
Hemet, California 92545-3632  
Telephone: (951) 765-5100 Ext. 2401  
Telecopier: (951) 765-5115  
Attention: Assistant Superintendent, Business Services

If to the Dissemination Agent: David Taussig & Associates, Inc.  
1301 Dove Street, Suite 600  
Newport Beach, California 92660  
Telephone: (949) 955-1500  
Telecopier: (949) 955-1590

If to the Fiscal Agent: U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
LM-CA-T24T  
Los Angeles, California 90071  
Telephone: (213) 615-6013  
Telecopier: (213) 615-6199  
Attention: Corporate Trust Department

If to the Participating Underwriter: Southwest Securities, Inc.  
620 Newport Center Drive, Suite 300  
Newport Beach, California 92660  
Telephone: (949) 717-2000  
Telecopier: (949) 717-2020  
Attention: Municipal Research Department

Section 14. 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 Community Facilities District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the Community Facilities District to meeting 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 Community Facilities District to disclose information concerning any owner of land within the Community Facilities District except as required as part of the information required to be disclosed by the Community Facilities District pursuant to Section 4 and Section 5 hereof.

Section 15. 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 16. State of California Law Governs. The validity, interpretation and performance of this Purchase Agreement shall be governed by the laws of the State of California.

Section 17. 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 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.

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

**HEMET UNIFIED SCHOOL DISTRICT**,  
on behalf of Community Facilities District No. 2004-1  
of the Hemet Unified School District

By: \_\_\_\_\_  
Authorized Officer

**U.S. BANK NATIONAL ASSOCIATION**,  
as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**DAVID TAUSSIG & ASSOCIATES, INC.**,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 2004-1 of the Hemet Unified School District  
Name of Bond Issue: Hemet Unified School District Community Facilities District No. 2004-1  
2004 Special Tax Bonds  
Date of Issuance: December 21, 2004

NOTICE IS HEREBY GIVEN that Community Facilities District No. 2004-1 of the Hemet Unified School District (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2004, by and among the Community Facilities District, U.S. Bank National Association, as Fiscal Agent and David Taussig & Associates, Inc., as Dissemination Agent. The Community Facilities District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_, 20\_\_

David Taussig & Associates, Inc.,  
as Dissemination Agent,  
on behalf of the Community Facilities District

By: \_\_\_\_\_  
Authorized Signatory

cc: Community Facilities District No. 2004-1

**EXHIBIT B**

**PARTICIPATING UNDERWRITER**

Southwest Securities Inc.  
620 Newport Center Drive, Suite 300  
Newport Beach, California 92660  
Telephone: (949) 717-2000  
Telecopier: (949) 717-2020  
Attention: Municipal Research Department

## APPENDIX F

### FORM OF DEVELOPER CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”) is executed and entered into as of December 1, 2004, by and among David Taussig & Associates, Inc., in its capacity as Dissemination Agent (the “Dissemination Agent”), U.S. Bank National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America (the “Bank”), in its capacity as fiscal agent (the “Fiscal Agent”), and Hemet/San Jacinto Ventures, LLC, a Delaware limited liability company (the “Developer”);

#### WITNESSETH:

**WHEREAS**, pursuant to the Fiscal Agent Agreement, dated as of December 1, 2004 (the “Fiscal Agent Agreement”), by and between Community Facilities District No. 2004-1 of the Hemet Unified School District (the “Community Facilities District”) and the Fiscal Agent, the Community Facilities District has issued the Community Facilities District No. 2004-1 of the Hemet Unified District 2004 Special Tax Bonds (the “2004 Bonds”), in the aggregate principal amount of \$3,700,000;

**WHEREAS**, the 2004 Bonds are payable from and secured by special taxes levied on certain property within Zone 1 of the Community Facilities District (the “Special Taxes”);

**WHEREAS**, the Developer is the sole owner of the property within Zone 1 the Community Facilities District; and

**WHEREAS**, this Disclosure Agreement is being executed and delivered by the Developer and the Bank for the benefit of the owners and beneficial owners of the 2004 Bonds and in order to assist the underwriters of the 2004 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Fiscal Agent Agreement. In addition, the following capitalized terms shall have the following meanings:

“Affiliate” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person, (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person; for purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“Assumption Agreement” means an agreement between a Major Developer, or an Affiliate thereof, and the Fiscal Agent containing terms substantially similar to this Disclosure Agreement, whereby such Major Developer or Affiliate agrees to provide Semi-Annual Reports and notices of significant events with respect to the portion of the Property owned by such Major Developer and its Affiliates.

“Development Plan” means, with respect to a Major Developer, the specific improvements such Major Developer intends to make, or cause to be made, to such Major Developer’s Property in order for such Property to reach the Planned Development Stage, the time frame in which such improvements are intended to be made and the estimated costs of such improvements; the Developer’s Development Plan, as of the date

hereof, is described in the Official Statement under the caption “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Property Ownership and Development.”

“Disclosure Representative” means George Meeker, Jr., President of Geobilt Homes, Inc., representative of the Developer, or his or her designee, or such other person as the Developer shall designate in writing to the Fiscal Agent from time to time.

“Dissemination Agent” means David Taussig & Associates, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Fiscal Agent a written acceptance of such designation.

“Event of Bankruptcy” means, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person’s debts or obligations, or offers to such Person’s creditors to effect a composition or extension of time to pay such Person’s debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person’s debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of 60 days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person’s creditors.

“Financing Plan” means, with respect to a Major Developer, the method by which such Major Developer intends to finance its Development Plan, including specific sources of funding for such Development Plan; the Developer’s Financing Plan, as of the date hereof, is described in the Official Statement under the caption “COMMUNITY FACILITIES DISTRICT NO. 2004-1 – Property Ownership and Development.”

“Financial Statements” means, with respect to a Major Developer, the full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position of each entity, enterprise, fund, account or other person (other than a financial institution acting as a lender in the ordinary course of business) identified in such Major Developer’s Financing Plan as a source of funding for such Major Developer’s Development Plan, provided that, if full financial statements, special purpose financial statements, project operating statements or other reports reflecting the financial position are audited and prepared in accordance with generally accepted accounting principles as in effect from time to time, then Financial Statements shall include such audited financial statements or reports.

“First Report Date” means the date in each year that is three months after the end of the Developer’s fiscal year, which First Report Date, as of the date of this Disclosure Agreement, is April 1.

“Listed Events” means any of the events listed in Section 4(a) hereof.

“Major Developer” means, with respect to the Property owned by the Developer as of December 1, 2004, any Property Owner, including the Developer, that owns any portion of such Property that has not reached the Planned Development Stage that, together with Property that has not reached the Planned Development Stage owned by Affiliates of such Property Owner, is subject to 20% or more of the Special Tax levy of the Community Facilities District for the then current Fiscal Year.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The Nationally Recognized Municipal Securities Information Repository for purposes of the Rule are identified in the Securities and Exchange Commission website located at [sec.gov/info/municipal/nrmsir.htm](http://sec.gov/info/municipal/nrmsir.htm).



“Official Statement” means the Official Statement, dated December 7, 2004, relating to the 2004 Bonds.

“Participating Underwriter” means Southwest Securities, Inc..

“Person” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Planned Development Stage” means, with respect to any portion of the Property, the stage at which finished grading of the Property has been substantially completed, major backbone infrastructure for the Property has been substantially completed, in-tract infrastructure of the portions of the Property owned by the Property Owner and any Affiliates has been completed and production units have been constructed.

“Property” means the real property of the Community Facilities District that is not exempt from the Special Taxes.

“Property Owner” means any Person that owns a fee interest in any Property.

“Report Dates” means, collectively, the First Report Dates and the Second Report Dates.

“Repository” means each National Repository and each State Repository.

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

“Second Report Date” means the date in each year that is nine months after the end of the Developer’s fiscal year, which Second Report Date, as of the date of this Disclosure Agreement, is October 1.

“Semi-Annual Report” means any Semi-Annual Report provided by the Developer pursuant to, and as described in, Sections 2 and 3 hereof.

“State Repository” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. Provision of Semi-Annual Reports. (a) The Developer shall, or, upon receipt of the Semi-Annual Report by the Dissemination Agent, the Dissemination Agent shall, provide to each Repository, the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent), the Participating Underwriter and the Community Facilities District a Semi-Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Report Date, commencing with the Second Report Date to occur in 2005. The Semi-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 3 hereof; provided, however, that the audited financial statements of the Developer, if any, may be submitted separately from the balance of the Semi-Annual Report that is to be provided no later than the First Report Date, and later than the date required above for the filing of such Semi-Annual Report if not available by that date. If the Developer’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(b) hereof. The Semi-Annual Reports may be provided in electronic format to each Repository and the Participating Underwriter and may be provided through the services of a “central post office” approved by the Securities and Exchange Commission.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Semi-Annual Report to Repositories, the Developer shall provide the Semi-Annual Report (in a form suitable for reporting to the Repositories) to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by such date, the Fiscal Agent has not received a copy of the Semi-Annual

Report, the Fiscal Agent shall notify the Disclosure Representative and the Dissemination Agent of such failure to receive the Semi-Annual Report. The Developer shall provide a written certification with, or as part of, each Semi-Annual Report furnished to the Dissemination Agent to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Developer and shall have no duty or obligation to review such Semi-Annual Report.

(c) If the Dissemination Agent is unable to verify that a Semi-Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board, the appropriate State Repository, if any, the Fiscal Agent and the Participating Underwriter, with a copy to the Developer, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine prior to each Report Date the name and address of each National Repository and each State Repository, if any;

(ii) provide any Semi-Annual Report received by it to each Repository, as provided herein; and

(iii) with respect to each Semi-Annual Report received by it and provided by it to each Repository, file a report with the Developer, the Fiscal Agent (if the Dissemination Agent is not the Fiscal Agent) and the Participating Underwriter certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 3. Content of Semi-Annual Reports. The Developer's Semi-Annual Report shall contain or incorporate by reference the following:

(a) With respect only to the Semi-Annual Report that is required to be provided no later than the First Report Date, Financial Statements for each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof provided, that if such information is required from the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of, after due inquiry). If audited Financial Statements are prepared, and such audited Financial Statements are not available by the time such Semi-Annual Report is required to be filed pursuant to Section 2(a) hereof, such Semi-Annual Report shall contain unaudited Financial Statements and the audited Financial Statements shall be filed as a supplement or amendment to the Semi-Annual Report when they become available. Such Financial Statements shall be for the most recently ended fiscal year for the entity covered thereby.

(b) With respect to all Semi-Annual Reports, the following information with respect to each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof); provided, that if such information is required from the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of, after due inquiry:

(i) If information regarding such Major Developer has not previously been included in a Semi-Annual Report or in the Official Statement, the Development Plan of such Major Developer or, if information regarding such Major Developer has previously been included in a Semi-Annual Report or in the Official Statement, a description of the progress made in the Development Plan of such Major Developer since the date of such information and a description of any material changes in such Development Plan and the causes or rationale for such changes.

(ii) If information regarding such Major Developer has not previously been included in a Semi-Annual Report or in the Official Statement, the Financing Plan of such Major Developer or, if information regarding such Major Developer has previously been included in a Semi-Annual Report or in the Official Statement, a description of any material changes in the Financing Plan of such Major Developer and the causes or rationale for such changes.

(iii) A description or update of the status of tentative and final maps recorded within the Community Facilities District relating to such Major Developer.

(iv) The number of building permits issued with respect to any of such Major Developer's Property during the six month period ending on the last day of the second month preceding the month in which the Report Date occurs, the number of building permits issued with respect to such Major Developer's Property included in each previous Semi-Annual Report, set forth opposite such previous reporting period and the total number of building permits issued with respect to such Major Developer's Property.

(v) A description of any sales of portions of such Major Developer's Property during the six-month period ending on the last day of the second month preceding the month in which the Report Date occurs, including the identification of each buyer (other than individual home buyers) and the number of residential lots and commercial or other acres sold; provided, however, that sales of five or fewer commercial or other acres may be aggregated for the purpose of such description.

(vi) A description of how many lots for residential units and acres for commercial uses of Property were owned by such Major Developer as of the last day of the second month preceding the month in which the Report Date occurs, how many lots for residential units and acres for commercial uses of such Major Developer's Property reached the Planned Development Stage during the six-month period ending on the last day of the second month preceding the month in which the Report Date occurs and how many lots for residential units and acres for commercial uses of such Major Developer's Property had not reached the Planned Development Stage as of the last day of the second month preceding the month in which the Report Date occurs.

(vii) a statement as to whether or not such Major Developer and all of its Affiliates paid, prior to their becoming delinquent, all Special Taxes, property taxes, assessments and special taxes levied on the Property owned by such Major Developer and such Affiliates that would have been delinquent had they not been paid by the preceding December 10 or April 10, respectively, and if such Major Developer or any of such Affiliates is delinquent in the payment of such Special Taxes, property taxes, assessments or special taxes, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

(viii) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any material changes in the information relating to such Major Developer and/or such Major Developer's Property contained in the Official Statement under the caption "BONDOWNERS' RISK – Endangered and Threatened Species" and " – Hazardous Substances."

(ix) An update of the status of any previously reported Listed Event described in Section 4 hereof and information regarding Listed Events, if any, required to be reported pursuant to Section 4 hereof.

(x) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any material change in the legal structure or organization of such Major Developer.

(xi) The filing and service of process on such Major Developer of a lawsuit against such Major Developer seeking damages, or a judgment in a lawsuit against the Major Developer, which

could have a significant impact on the Major Developer's ability to pay Special Taxes or to sell or develop all or any portion of the Major Developer's Property.

(xii) Any significant amendments to land use entitlements for such Major Developer's Property, if material.

(xiii) Any previously undisclosed governmentally-imposed preconditions to commencement or continuation of development on such Major Developer's Property, if material.

(xiv) Any previously undisclosed legislative, administrative or judicial challenges to development on such Major Developer's Property, if material.

(xv) Any changes in the alignment, design or likelihood of completion of significant public improvements affecting such Major Developer's Property, including major thoroughfares, sewers, water conveyance systems and similar facilities, which could materially and adversely affect such Major Developer's Development Plan.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Major Developers that are Affiliates of each other may file a single Semi-Annual Report covering all such entities. Any or all of the items listed above may be included by specific reference to other documents which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Developer shall clearly identify each such other document so included by reference. If a Property Owner which was a Major Developer no longer meets the definition of Major Developer, no Semi-Annual Report shall be required to be filed by or with respect to such Property Owner under this Section 3; provided, however, that notice that the Property Owner no longer meets the definition of Major Developer shall be provided in the manner required for Semi-Annual Reports by the next succeeding date on which a Semi-Annual Report would have been filed unless such fact has previously been reported under Section 3 or Section 4.

Section 4. Reporting of Listed Events. (a) Pursuant to the provisions of this Section, the Developer shall promptly give, or cause to be given notice of the occurrence of any of the following events with respect to each Major Developer (other than any Major Developer with respect to which the Developer's obligations hereunder have been assumed in accordance with Section 5 or terminated in accordance with Section 6 hereof); provided, that, if such information is required from the Developer as to another Major Developer, the Developer shall only be required to provide such information that it has actual knowledge of:

(i) Unless disclosed in the Official Statement or a prior Semi-Annual Report, any conveyance by such Major Developer of Property owned by such Major Developer to an entity that is not an Affiliate of such Major Developer, the result of which conveyance is to cause the transferee to become a Major Developer.

(ii) Any failure of such Major Developer, or any Affiliate of such Major Developer, to pay when due general property taxes, special taxes or assessments with respect to its Property within the Community Facilities District.

(iii) Any denial or termination of credit, any denial or termination of, or default under, any line of credit or loan or any other loss of a source of funds that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay Special Taxes within the Community Facilities District when due.

(iv) The occurrence of an Event of Bankruptcy with respect to such Major Developer, or any Affiliate of such Major Developer, that could have a material adverse affect on such Major Developer's most recently disclosed Financing Plan or Development Plan or on the ability of such Major Developer, or any Affiliate of such Major Developer, to pay Special Taxes within the Community Facilities District when due.

(v) The assumption of any obligations by a Major Developer pursuant to Section 5 hereof. A copy of the Assumption Agreement shall be provided to the Participating Underwriter, the Dissemination Agent, the Fiscal Agent and the Community Facilities District.

(vi) The filing of any lawsuit against a Major Developer which, in the reasonable judgment of such Major Developer, will adversely affect the completion of the development of Property owned by such Major Developer, or litigation which if decided against the Major Developer, in the reasonable judgment of the Major Developer, would materially adversely affect the financial condition of the Major Developer.

(vii) A change in Developer's fiscal year. As of the date hereof, Developer's fiscal year begins on January 1 and ends on December 31.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall promptly notify the Dissemination Agent, the Fiscal Agent, the Participating Underwriter, and the Community Facilities District in writing and the Dissemination Agent shall report the occurrence pursuant to subsection (c). The Developer shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the Municipal Securities Rulemaking Board and each State Repository, if any.

(c) If the Dissemination Agent has been notified by the Developer of the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with each Repository or the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to the Participating Underwriter, the Fiscal Agent and the Community Facilities District.

Section 5. Assumption of Obligations. If a portion of the Property owned by the Developer, or any Affiliate of the Developer, is conveyed to a Person that, upon such conveyance, will be a Major Developer, all of the obligations of the Developer hereunder with respect to the Property owned by such Major Developer and its Affiliates may be assumed by such Major Developer or by an Affiliate. In order to effect such assumption, such Major Developer or Affiliate shall enter into an Assumption Agreement. A copy of the Assumption Agreement shall be provided to the Participating Underwriter, the Dissemination Agent, the Fiscal Agent and the Community Facilities District as set forth in Section 4(v).

Section 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Agreement with respect to a Major Developer (including its obligations with respect to itself as a Major Developer) shall terminate upon the earliest to occur of (a) the date on which such Major Developer is no longer a Major Developer, (b) the date on which the Developer's obligations with respect to such Major Developer are assumed under an Assumption Agreement entered into pursuant to Section 5 hereof, or (c) the date on which all Special Taxes levied on the Property owned by such Major Developer and its Affiliates are paid or prepaid in full; provided, however, that upon the occurrence of any of the events described in clause (a), (b) or (c), the Developer's obligations hereunder with respect to each other Major Developer, if any, shall remain in full force and effect. All of the Developer's obligations under this Disclosure Agreement shall terminate upon the earliest to occur of (x) the date on which no Property Owner is a Major Developer, (y) the date on which (i) the Developer is no longer a Major Developer, and (ii) the Developer no longer has any obligations under this Disclosure Agreement with respect to any remaining Property as a result of such obligations having been assumed under one or more Assumption Agreements entered into pursuant to Section 5 hereof, or (z) the date on which all of the 2004 Bonds have been legally defeased, redeemed, or paid in full. Upon the occurrence of any such termination prior to the final maturity of the 2004 Bonds, the

Developer shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. Dissemination Agent. The Developer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days' written notice to the Developer and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Semi-Annual Report nor shall the Dissemination Agent be responsible for filing any Semi-Annual Report not provided to it by the Developer in a timely manner and in a form suitable for filing. If the Dissemination Agent is other than the Fiscal Agent, the Developer shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with its schedule of fees as amended from time to time. If the Dissemination Agent is the Fiscal Agent, the Community Facilities District shall be responsible for paying the fees and expenses of the Dissemination Agent for its services provided hereunder in accordance with its agreement with the Community Facilities District.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Developer, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to Sections 2(a), 3 or 4(a) hereof it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2004 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2004 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by owners of the 2004 Bonds in the manner provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of owners of the 2004 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of owners or beneficial owners of the 2004 Bonds.

If the financial information or operating data to be provided in the Semi-Annual Report is amended pursuant to the provisions hereof, the first Semi-Annual Report containing the operating data or financial information in accordance with such amendment shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing Financial Statements, the financial information for the year in which the change is made shall present a comparison between the Financial Statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the Financial Statements or information, in order to provide information to investors to enable them to evaluate the ability of the Major Developer to generally meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4 hereof.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Developer 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 Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Developer chooses to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Developer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Developer, the Dissemination Agent or the Fiscal Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding 2004 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or any owner or beneficial owner of the 2004 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Developer, the Dissemination Agent or the Fiscal Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer, the Dissemination Agent or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. The Developer agrees to indemnify and save each of the Fiscal Agent and the Dissemination Agent, and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it or they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding losses, expenses and liabilities due to the Fiscal Agent's or the Dissemination Agent's, including their respective officers', directors', employees' and agents' negligence, willful misconduct or failure to comply with any provision of this Disclosure Agreement. The Dissemination Agent and Fiscal Agent shall have no responsibility for the preparation, review, form or content of any Semi-Annual Report or any notice of a Listed Event. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent or Fiscal Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent and Fiscal Agent may conclusively rely on the determination of the Developer as to the materiality of any event for purposes of Section 4 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Developer's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Developer:

Hemet/San Jacinto Ventures LLC  
c/o Geobilt Homes, Inc.  
14 Hughes, #B-104  
Irvine, California 92618  
Telephone: (949) 450-1000 Ext. 102  
Telecopier: (949) 450-1100  
Attention: George R. Meeker, Jr., President

If to the Community Facilities District: Community Facilities District No. 2004-1  
of the Hemet Unified School District  
2350 West Latham Avenue  
Hemet, California 92545-3632  
Telephone: (951) 765-5100 Ext. 2401  
Telecopier: (951) 765-5115  
Attention: Assistant Superintendent, Business  
Services

If to the Dissemination Agent: David Taussig & Associates, Inc.  
1301 Dove Street  
Newport Beach, CA 92660  
Telephone: (949) 955-1500  
Telecopier: (949) 955-1590

If to the Fiscal Agent: U.S. Bank National Association  
633 West Fifth Street, 24<sup>th</sup> Floor  
LM-CA-T24T  
Los Angeles, California 90071  
Telephone: (213) 615-6013  
Telecopier: (213) 615-6199  
Attention: Corporate Trust Department

If to the Participating Underwriter: Southwest Securities Inc.  
620 Newport Center Drive, Suite 300  
Newport Beach, California 92660  
Telephone: (949) 717-2000  
Telecopier: (949) 717-2020  
Attention: Municipal Research Department

Section 13. Beneficiaries. The Participating Underwriters and the owners and beneficial owners from time to time of the 2004 Bonds shall be third party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Developer, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and owners and beneficial owners from time to time of the 2004 Bonds, and shall create no rights in any other person or entity.

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

Section 15. 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.

Section 16. 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 17. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.



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

**HEMET/SAN JACINTO VENTURES LLC**,  
a Delaware limited liability company

By: Geobilt Homes, Inc.,  
a California corporation, Member

By: \_\_\_\_\_  
George R. Meeker, Jr., President

**U.S. BANK NATIONAL ASSOCIATION**, as  
Bank and Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**DAVID TAUSSIG & ASSOCIATES, INC.**,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 2004-1 of the Hemet Unified School District (the "District")

Name of Bond Issue: Hemet Unified School District Community Facilities District No. 2004-1 2004 Special Tax Bonds

Date of Issuance: December 21, 2004

NOTICE IS HEREBY GIVEN that Hemet/San Jacinto Ventures LLC (the "Developer") has not provided a Semi-Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2004, by and among the Developer, U. S. Bank National Association, as Fiscal Agent, and David Taussig & Associates, Inc., as Dissemination Agent. The Developer anticipates that the Semi-Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_, 20\_\_

David Taussig & Associates, Inc., as Dissemination Agent, on behalf of the Developer

By: \_\_\_\_\_  
Authorized Representative

cc: Hemet Unified School District  
Southwest Securities, Inc.  
Hemet/San Jacinto Ventures LLC

## APPENDIX G

### FORM OF OPINION OF BOND COUNSEL

*Upon delivery of the Bonds in definitive form, Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to Community Facilities District No. 2004-1 of the Hemet Unified School District, proposes to render its final approving opinion with respect to such Bonds in substantially the following form:*

Governing Board  
Hemet Unified School District  
2350 W. Latham Avenue  
Hemet, CA 92545

Re: \$3,700,000 Community Facilities District No. 2004-1 of the  
Hemet Unified School District  
2004 Special Tax Bonds  
**Final Opinion of Bond Counsel**

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by Community Facilities District No. 2004-1 of the Hemet Unified School District ("District") of \$3,700,000 aggregate principal amount of bonds designated "Community Facilities District No. 2004-1 of the Hemet Unified School District Series 2004 Special Tax Bonds" ("Bonds"). The Bonds are 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 Resolution No. 1363 adopted by the Board of Education of the Hemet Unified School District ("School District"), acting in its capacity as the Legislative Body of the District, on November 16, 2004, and the Fiscal Agent Agreement executed in connection therewith dated as of December 1, 2004, by and between the District and U.S. Bank National Association ("Fiscal Agent Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Fiscal Agent Agreement.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the formation of the District and the issuance of the Bonds ("District Proceedings"). We have also examined certificates and representations of fact made by public officials and officers of the District and the School District, the Underwriter and others as we have deemed necessary to render this opinion.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the District or the School District other than the record of the District Proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof which has been or may be supplied to any purchaser of the Bonds. In rendering this opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the accuracy of the factual matters represented, warranted or certified therein.

The Fiscal Agent Agreement, the Tax Certificate and other documents related to the District refer to certain requirements and procedures which may be changed and certain actions which may be taken or omitted under the circumstances and subject to terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change is made, or action is taken or omitted upon the advice or approval of counsel other than ourselves.

No opinion is expressed herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events occur. Our engagement with respect to the bonds has concluded with the issuance thereof and we disclaim any obligation to update this opinion. As to questions of fact material to our opinion, we have relied upon the representations of fact and certifications referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Fiscal Agent Agreement, the Tax Certificate and other documents related to the District Proceedings, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Fiscal Agent Agreement and the Tax Certificate and other documents related to the District Proceedings are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to creditors' rights and remedies, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against school districts in the State of California ("State"). We advise you that a State court may not strictly enforce certain covenants in the foregoing documents if it concludes that enforcement would be unreasonable under the circumstances.

Based on and subject to the foregoing, and in reliance thereon, and our consideration of such questions of law as we have deemed relevant to the circumstances, we are of the following opinions:

1. The District has, and the District Proceedings show, full power and authority to issue the Bonds. The Bonds constitute legal, valid and binding obligations of the District, payable in accordance with their terms. The Bonds are limited obligations of the District payable solely from and secured by a pledge of the Net Taxes, and from other funds and accounts pursuant to the Fiscal Agent Agreement, and are not obligations of the School District, the State or any public agency thereof (other than the District). The District has the full right, power and authority to levy and pledge the Net Taxes to the Owners of the Bonds.

2. The Fiscal Agent Agreement has been duly and validly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the District.

3. Interest on the Bonds (including any original issue discount properly allocable to the owner thereof) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes imposed on individuals and corporations, although it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences related to the Bonds or to the accrual or receipt of the interest on the Bonds.

We express no opinion as to any matter other than as expressly set forth above.

Very truly yours,

## APPENDIX H

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2004 Bonds, payment of principal of and interest on the 2004 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2004 Bonds, confirmation and transfer of beneficial ownership interests in the 2004 Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2004 Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School 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 2004 Bonds. The 2004 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 2004 Bond will be issued for each maturity of the 2004 Bonds, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC’s participants (the “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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as 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 (the “Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2004 Bond (the “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 2004 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 2004 Bonds, except in the event that use of the book-entry system for the 2004 Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of 2004 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 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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 2004 Bonds may wish to take certain steps to augment the transmissions to them of notices of significant events with respect to the 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2004 Bonds documents. For example, Beneficial Owners of 2004 Bonds may wish to ascertain that the nominee holding the 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2004 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's 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 2004 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payment on the 2004 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 School District or the Fiscal Agent, on a payment 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 (nor the nominee), the Fiscal Agent or the School District, subject to any statutory and 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 Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 2004 Bonds at any time by giving reasonable notice to the School District and the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered as described in the Indenture.

The School District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered as described in the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but the School 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 2004 Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Fiscal Agent to that effect, then the School District will discontinue the Book-Entry System with DTC for the 2004 Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully registered

Bond for each maturity of the 2004 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the 2004 Bonds, then the 2004 Bonds shall no longer be restricted to being registered in the 2004 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 2004 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2004 Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the 2004 Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Indenture, and (iii) the 2004 Bonds will be transferable and exchangeable as provided in the Indenture.

*The School District and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2004 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 2004 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 2004 Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the 2004 Bonds or the Indenture. The School District and the Fiscal Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of or interest on the 2004 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 School District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2004 Bonds or any error or delay relating thereto.*

THE COMMUNITY FACILITIES DISTRICT AND THE FISCAL AGENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT, (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE BONDOWNERS UNDER THE FISCAL AGENT AGREEMENT, (III) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF A 2004 BOND, (IV) THE PAYMENT BY ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OF OR INTEREST ON THE 2004 BONDS, (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE BONDOWNER OF THE 2004 BONDS, OR (VI) ANY OTHER MATTER.

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE 2004 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2004 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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