

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds. See “CONCLUDING INFORMATION—Tax Matters” herein.*



**\$6,000,000**  
**CITY OF LOS ANGELES**  
**COMMUNITY FACILITIES DISTRICT NO. 8 (LEGENDS AT CASCADES)**  
**SPECIAL TAX BONDS, SERIES 2010**

**Dated: Date of Issuance**

**Due: September 1, as shown on the inside cover page**

The City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) Special Tax Bonds, Series 2010 (the “Series 2010 Bonds”) are being issued for the principal purpose of providing funds to (i) pay costs of acquiring certain public facilities, (ii) fund a reserve fund securing the Series 2010 Bonds, and (iii) pay costs of issuance of the Series 2010 Bonds. The District has been formed by and is located in the City of Los Angeles, California.

The Series 2010 Bonds are authorized to be issued pursuant to the Mello Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California) and pursuant to an Indenture, dated as of November 1, 2010 by and between the District and U.S. Bank National Association, as trustee (the “Trustee”).

The Series 2010 Bonds are payable from Net Special Tax Revenues, which consist of Special Taxes levied on the Taxable Property within the District and received by the District, less amounts required to pay certain Administrative Expenses. The Special Taxes are to be levied according to the rate and method of apportionment approved by the City Council of the City of Los Angeles, as the legislative body of the District, and by the vote of the District’s qualified landowner-electors. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” The Special Taxes will be collected in the same manner and at the same time as ad valorem property taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Special Taxes.”

The Series 2010 Bonds are being issued in fully registered book-entry form only in denominations of \$5,000 or any integral multiple thereof; and, when issued, they will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Series 2010 Bonds. Purchasers will not receive certificates representing their interests in the Series 2010 Bonds. Interest on the Series 2010 Bonds is payable on March 1, 2011 and on each March 1 and September 1 thereafter until maturity. Payment of the principal of and interest on the Series 2010 Bonds, and redemption premiums, if any, thereon will be made by the Trustee, to Cede & Co. for subsequent disbursement to DTC Participants, which are expected to remit such payments to the beneficial owners of the Series 2010 Bonds. See “THE SERIES 2010 BONDS—Book-Entry System.”

The Series 2010 Bonds are subject to optional, mandatory, and sinking fund redemption as described herein. See “The Series 2010 Bonds—Redemption” herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OF LOS ANGELES, THE DISTRICT (OTHER THAN AS DESCRIBED HEREIN), THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2010 BONDS. THE SERIES 2010 BONDS ARE NOT GENERAL OBLIGATIONS OF THE DISTRICT. THEY ARE LIMITED OBLIGATIONS PAYABLE SOLELY FROM NET SPECIAL TAX REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE PURSUANT TO WHICH THE BONDS ARE BEING ISSUED.

This cover page contains certain information for general reference only. It is not a summary of the Series 2010 Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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**MATURITY SCHEDULE**  
**(See Inside Cover Page)**

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*The Series 2010 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the District by Carmen A. Trutanich, City Attorney, for Cascades Park Properties, LLC by its counsel, Allen Matkins Leek Gamble & Mallory LLP, Irvine, California and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. It is anticipated that the Series 2010 Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about November 18, 2010.*

**STONE & YOUNGBERG**

**\$6,000,000**  
**CITY OF LOS ANGELES**  
**COMMUNITY FACILITIES DISTRICT NO. 8 (LEGENDS AT CASCADES)**  
**SPECIAL TAX BONDS, SERIES 2010**

**MATURITY SCHEDULE**

**\$3,645,000 Serial Bonds**  
**Base CUSIP<sup>†</sup> 544386**

<b><i>Maturity Date</i></b> <b><i>(September 1)</i></b>	<b><i>Principal</i></b> <b><i>Amount</i></b>	<b><i>Interest</i></b> <b><i>Rate</i></b>	<b><i>Yield</i></b>	<b><i>CUSIP No.<sup>†</sup></i></b>
2011	\$ 75,000	1.375%	1.375%	BR5
2012	15,000	1.875	1.875	CS2
2013	20,000	2.250	2.250	BS3
2014	30,000	2.500	2.500	BT1
2015	35,000	2.875	2.875	BU8
2016	45,000	3.125	3.200	BV6
2017	50,000	3.500	3.625	BW4
2018	60,000	3.750	3.875	BX2
2019	70,000	4.000	4.125	BY0
2020	80,000	4.250	4.375	BZ7
2021	95,000	4.500	4.625	CA1
2022	105,000	4.625	4.750	CB9
2023	120,000	4.750	4.875	CC7
2024	130,000	5.000	5.000	CD5
2025	145,000	5.000	5.100	CE3
2026	165,000	5.125	5.200	CF0
2027	180,000	5.125	5.280	CG8
2028	200,000	5.250	5.350	CH6
2029	220,000	5.375	5.400	CJ2
2030	240,000	5.375	5.450	CK9
2031	260,000	5.500	5.500	CL7
2032	285,000	5.500	5.550	CM5
2033	310,000	5.500	5.600	CN3
2034	340,000	5.625	5.650	CP8
2035	370,000	5.625	5.700	CQ6

\$2,355,000 5.750% Term Bonds Due September 1, 2040 - Price - 100% CUSIP No. CR4<sup>†</sup>

<sup>†</sup> Copyright 2010, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. None of the District, the City or the Underwriter take any responsibility for the accuracy of such data.

## **CITY OF LOS ANGELES**

### ***MAYOR***

Antonio R. Villaraigosa

### ***COUNCIL MEMBERS***

Ed Reyes (District 1)  
Paul Krekorian (District 2)  
Dennis P. Zine (District 3)  
Tom LaBonge (District 4)  
Paul Koretz (District 5)

Tony Cardenas (District 6)  
Richard Alarcón (District 7)  
Bernard C. Parks (District 8)  
Jan Perry (District 9)  
Herb J. Wesson, Jr. (District 10)

Bill Rosendahl (District 11)  
Greg Smith (District 12)  
Eric Garcetti (District 13)  
Jose Huizar (District 14)  
Janice Hahn (District 15)

### ***CITY OFFICIALS***

Carmen A. Trutanich, *City Attorney*  
Wendy Greuel, *City Controller*  
Miguel A. Santana, *City Administrative Officer*  
Steve Ongele, *Interim City Treasurer*  
June Lagmay, *City Clerk*

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### **SPECIAL SERVICES**

#### ***BOND COUNSEL***

Orrick, Herrington & Sutcliffe LLP  
Los Angeles, California

#### ***TRUSTEE***

U.S. Bank National Association  
Los Angeles, California

#### ***FINANCIAL ADVISOR***

Gardner, Underwood & Bacon LLC  
Los Angeles, California

#### ***SPECIAL TAX CONSULTANT***

David Taussig & Associates, Inc.  
Newport Beach, California

#### ***APPRAISER***

Harris Realty Appraisal  
Newport Beach, California

No dealer, broker, salesperson or other person has been authorized by the City of Los Angeles (the “City”) or the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) (the “District”) to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2010 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2010 Bonds. Statements contained in this Official Statement that 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 a representation of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the District, Cascades Park Properties, LLC (“Cascades Park”) or any matters expressed herein since the date hereof.

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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 respective 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.*

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**CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS  
IN THIS OFFICIAL STATEMENT**

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 Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words and include, but are not limited to, statements under the captions “THE COMMUNITY FACILITIES DISTRICT” and “DEVELOPER AND DEVELOPMENT PLAN.”

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the District has agreed to provide certain on-going financial and operating data, except as specifically described under the caption “CONCLUDING INFORMATION—Continuing Disclosure” the District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based change.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010 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 SERIES 2010 BONDS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES SET FORTH ON THE INSIDE FRONT COVER PAGE HEREOF, AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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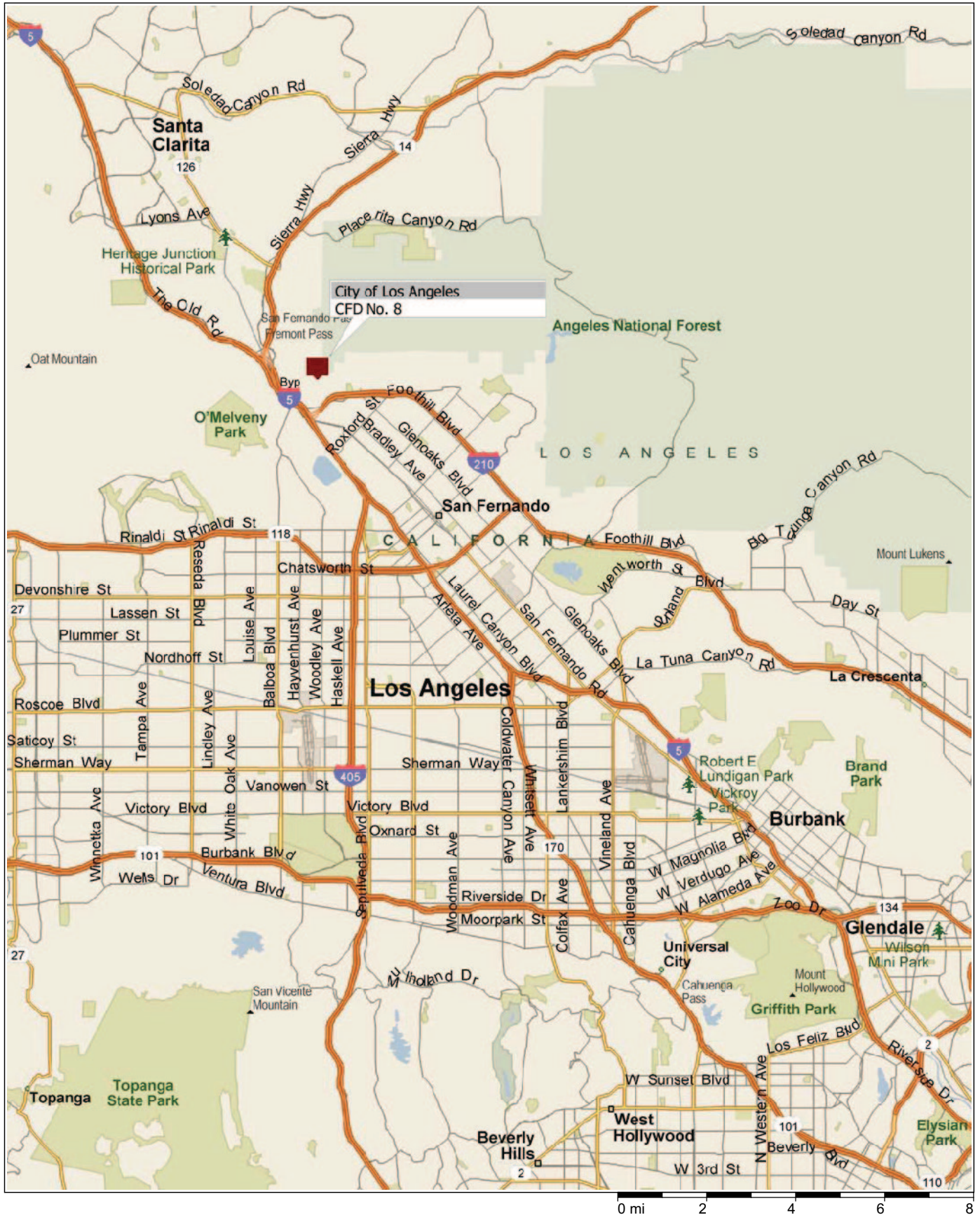
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## Regional Map





City of Los Angeles  
Community Facilities District No 8  
Legends at Cascades





**\$6,000,000**  
**CITY OF LOS ANGELES**  
**COMMUNITY FACILITIES DISTRICT NO. 8 (LEGENDS AT CASCADES)**  
**SPECIAL TAX BONDS, SERIES 2010**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and attached appendices, is to provide certain information concerning the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) Special Tax Bonds, Series 2010 in the principal amount of \$6,000,000 (the “Series 2010 Bonds” and, together with any other bonds issued on a parity with them, the “Bonds”). The Series 2010 Bonds are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code) (the “Act”), and an Indenture, dated as of November 1, 2010 (the “Indenture”), by and between the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) (the “District”) and U.S. Bank National Association, as trustee (the “Trustee”). The Series 2010 Bonds are being issued for the principal purpose of providing funds to (i) pay costs of acquiring certain public facilities (the “Facilities”), (ii) fund a reserve fund securing the Series 2010 Bonds, and (iii) pay costs of issuance of the Series 2010 Bonds. Unless otherwise defined in this Official Statement, capitalized terms shall have the meanings assigned to them in the Indenture.

***The District.*** The District is located in the northeast portion of the San Fernando Valley in the Sylmar area of the City. The District is located in the foothills of the Angeles National Forest north of the Golden State Freeway (I-5) and Foothill Freeway (I-210) interchange.

The District consists of approximately 171 gross acres, of which approximately 33 acres constitutes Taxable Property. The Taxable Property within the District consists of 176 completed residential attached condominiums and 9.04 acres of developable property currently in a mass graded condition. The remaining 126 acres of property within the District constitutes golf course property, open space and other property not subject to the Special Tax.

All of the Taxable Property within the District is currently owned by (i) 176 individual homeowners, or (ii) Cascades Park Properties, LLC, a California limited liability company (“Cascades Park”) which owns approximately 9.04 acres of Taxable Property in the District which is currently in a mass graded condition.

***Development within the District.*** KB Home Greater Los Angeles Inc., a California corporation (“KB Home”), has developed a portion of the Taxable Property with 176 completed attached residential condominiums. The 176 completed condominium units are commonly known as part of the “Legends at Cascades” project. The remaining Taxable Property owned by Cascades Park is currently entitled for 111 attached condominiums, however, Cascades Park currently is considering filing a site plan review application with the City to change the product mix for the property. The Taxable Property consists of the property within Villages 1, 2, 3 and 6 of the Legends at Cascades project. The remaining Villages within the Legends at Cascades project are owned by Cascades Park and Cascades Park is considering filing a site plan review application with the City to change the product mix for the property as well. Such property is located within the District but is not subject to the Special Tax. The Taxable Property within the District consists solely of the property within Villages 1, 2, 3 and 6 which consist of the 176 completed attached condominiums (the “Completed Property”) in Villages 1, 2 and 6 and the 9.04 acres within Village 3 which is owned by Cascades Park and is in a mass graded condition. Cascades Park does not currently have a timetable for the development of the property it owns within the District and is not a residential homebuilder. Investors purchasing the Bonds should not assume such property will be developed in a timely manner, or at all.

Cascades Park has completed all infrastructure for the 176 completed units, but has not completed the infrastructure required to develop the remaining Taxable Property it owns in the District and does not currently

have a timetable for completing such infrastructure. See “DEVELOPER AND DEVELOPMENT PLAN—Property Ownership and The Development Plan.”

The 176 completed units consist of two types of attached condominium units, the “Summerlin” and “Brighton” products, that were constructed by KB Home. See “DEVELOPER AND DEVELOPMENT PLAN” herein for further description of the Brighton and Summerlin products. As of September 15, 2010, the Taxable Property in the District consists of (A) 176 completed attached condominium units, all of which had been sold to and are owned by individual homeowners, and (B) approximately 9.04 acres of property owned by Cascades Park in Village 3, which is in a mass graded condition. See “DEVELOPER AND DEVELOPMENT PLAN” herein for further description of the Brighton and Summerlin products.

***The Appraisal.*** An appraisal report dated April 2, 2010 (the “Appraisal”), of the property within the District that is expected to be subject to the Special Tax has been prepared for the City by Harris Realty Appraisal (the “Appraiser”), and a copy of the Appraisal is attached to this Official Statement as Appendix B. Additionally, a summary appraisal report dated September 15, 2010, (the “Update Appraisal”) has also been prepared by the Appraiser and is attached to this Official Statement as Appendix B-1. As of April 1, 2010, based on the assumptions and limiting conditions set forth in the Appraisal, the Appraiser estimates the minimum market value of the Taxable Property within the District to be \$55,975,000 of which \$49,900,000 was attributable to the 156 units sold and closed by KB Home to individual homeowners, \$6,075,000 to the 20 units that were owned by KB Home at such time. The Appraiser assigned no value to the property owned by Cascades Park in Village 3 due to the uncertainty of the timing of development of Village 3 and the infrastructure costs required to bring Village 3 to blue top lots. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Property Values” and “—Estimated Appraised-Value-Lien” for a discussion of the estimated appraised values and a discussion of the estimated appraised value-to-lien ratios for property within the District. As of September 15, 2010, the Appraiser estimates in the Update Appraisal that, if the Taxable Property in the District were to be revalued as of September 15, 2010, the value would be not less than the value estimate as of April 1, 2010. See “RISK FACTORS” herein.

***Security for the Series 2010 Bonds.*** The Series 2010 Bonds are payable from Net Special Tax Revenues, which consist of Special Taxes levied and received by the District less amounts required to pay Administrative Expenses. The District is required to levy the Special Taxes on the Taxable Property within the District in accordance with the rate and method of apportionment of special taxes approved by the City Council of the City of Los Angeles (the “City”), acting as the legislative body of the District, and by the votes of the qualified landowner-electors in the District (the “Rate and Method of Apportionment”). A copy of the Rate and Method of Apportionment is attached to this Official Statement as Appendix A. The Special Tax will be collected in the same manner and at the same time as the *ad valorem* property taxes applicable to the Taxable Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Special Taxes.” The District began levying the Special Taxes on Developed Property commencing in Fiscal Year 2008-09. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Collection” herein.

Although the Series 2010 Bonds are secured by Net Special Tax Revenues from all Taxable Property, the Bonds have been sized to provide that the estimated Assigned Special Taxes on the 176 completed units are at least 110% of annual debt service on the Series 2010 Bonds plus Assumed Administrative Expenses. The District anticipates the Special Taxes levied on the 176 completed units will equal 100% of the annual debt service on the Series 2010 Bonds plus administrative expenses until such time as property in Village 3 becomes classified as “Developed Property” pursuant to the Rate and Method. The District does not anticipate levying Special Taxes on the Taxable Property within Village 3 until such time as the property constitutes “Developed Property” pursuant to the Rate and Method of Apportionment; provided, however, that, in the event of Special Tax delinquencies above a certain threshold, the District is entitled and obligated to levy on Undeveloped Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Covenant for Superior Court Foreclosure” herein. Pursuant to the Rate and Method, the definition of “Special Tax Requirement” does not permit the District to levy Special Taxes for the acquisition of facilities. As property in Village 3 becomes categorized as Developed Property, the Special Taxes levied on

the 176 completed homes will decrease as the Special Tax Requirement is unlikely to increase significantly until Additional Bonds (defined below) are issued by the District. Accordingly, investors may in the future be reliant to a certain extent on property in Village 3 which has been issued a building permit but is still undergoing construction and is owned by a future homebuilder in Village 3. Pursuant to the Act, the District may not increase the levy of Special Taxes on a parcel of residential property by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. See “RISK FACTORS—Potential Dilution of Credit During Buildout of Village 3.”

Pursuant to the Indenture, the District may issue up to \$4,000,000 aggregate principal amount of additional bonds (“Additional Bonds”) which are secured by a pledge and lien upon the Net Special Tax Revenues on a parity with the Series 2010 Bonds so long as certain specified conditions are satisfied. Such conditions include the requirements that: (i) the amount of Assigned Special Taxes that may be generated from Certificated Parcels (*i.e.*, parcels of Taxable Property that have been issued a certificate of occupancy by the City) as of the date of the issuance of such Additional Bonds is at least equal to the sum of A) 110% of Annual Debt Service for the Corresponding Bond Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus B) Assumed Administrative Expenses for such Fiscal Year, and (ii) the Assessed Value or Appraised Value of Certificated Parcels is at least four times the sum of the aggregate principal amount of the Bonds Outstanding after the issuance of such Additional Bonds and certain direct and overlapping debt as required by the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS” herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE DISTRICT (OTHER THAN AS DESCRIBED HEREIN), THE STATE OF CALIFORNIA (THE “STATE”), OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2010 BONDS. THE SERIES 2010 BONDS ARE NOT GENERAL OBLIGATIONS OF THE DISTRICT; THEY ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET SPECIAL TAX REVENUES AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE.

Brief descriptions of the Series 2010 Bonds, the security and sources of payment for the Series 2010 Bonds, the Special Taxes, the District and Cascades Park are included in this Official Statement, together with summaries of certain provisions of the Series 2010 Bonds, the Indenture and certain other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture and other documents are qualified in their entirety by reference to such documents, and references herein to the Series 2010 Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, copies of which are available for inspection at the office of the City Administrative Officer.

## **THE SERIES 2010 BONDS**

### **Authority for Issuance**

The Series 2010 Bonds are being issued pursuant to the Act, the Indenture and other applicable laws of the State. The Act was adopted by the California Legislature to provide an alternate method of financing certain public capital facilities and services. Once duly established by a local governmental agency, a community facilities district is itself a legally constituted governmental entity, with the governing board or legislative body of the local agency that established it constituting the legislative body of the community facilities district. Subject to approval by a two-thirds vote of a community facilities district’s qualified electors and compliance with the provisions of the Act, the legislative body may authorize the issuance of bonds for the community facilities district in order to finance certain public improvements, and the legislative body may levy and collect a special tax within such community facilities district to repay such indebtedness.

## **Purpose of the Series 2010 Bonds**

The Series 2010 Bonds are being issued for the principal purpose of providing funds to pay the costs of acquiring certain public facilities (the “Facilities”) and to reimburse Cascades Park for certain funds that it advanced. See “THE COMMUNITY FACILITIES DISTRICT—The Facilities.” Proceeds derived from the sale of the Series 2010 Bonds will also be used to fund the Reserve Fund and pay the costs of issuing the Series 2010 Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

## **General Description**

The Series 2010 Bonds will be issued in fully registered form without coupons in denominations of \$5,000 and any integral multiple thereof (“Authorized Denominations”). The Series 2010 Bonds will be dated the date of issuance thereof. The Series 2010 Bonds are scheduled to mature on September 1, in the years and in the principal amounts, and will bear interest at the rates per annum, shown on the inside front cover page of this Official Statement. Interest on the Series 2010 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and will be payable semiannually on March 1 and September 1 of each year, commencing March 1, 2011 (each an “Interest Payment Date”). Interest on each Series 2010 Bond will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) such Series 2010 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date (the fifteenth calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day) in which event interest thereon will be payable from such Interest Payment Date, (ii) such Series 2010 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date or (iii) interest on such Series 2010 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been previously paid or duly provided for.

The interest on, and principal of and redemption premiums, if any, on the Series 2010 Bonds are payable in lawful money of the United States of America. Interest is payable by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Series 2010 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date (except that interest on any Series 2010 Bond which is not punctually paid or duly provided for on any Interest Payment Date will, if and to the extent that amounts subsequently become available therefor, be payable on a payment date established by the Trustee to the person in whose name the ownership of such Series 2010 Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee pursuant to the Indenture). Payment of principal of any Series 2010 Bond will be made only upon presentation and surrender thereof at maturity or upon earlier redemption at the Office of the Trustee.

The Series 2010 Bonds will be issued in book-entry form, and The Depository Trust Company of New York, New York (“DTC”) will act as securities depository. So long as the Series 2010 Bonds are held in book-entry form, principal of, premium, if any, and interest on the Series 2010 Bonds will be paid by the Trustee directly to DTC for distribution to the beneficial owners of the Series 2010 Bonds in accordance with procedures adopted by DTC. See “—Book-Entry System” and Appendix F—“INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY AND ITS BOOK-ENTRY SYSTEM.”

The Series 2010 Bonds are not general obligations of the District but are limited obligations of the District payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the City, the District (except to the limited extent set forth in the Indenture), the State or any political subdivision thereof is pledged to the payment of the Series 2010 Bonds. See “RISK FACTORS—Bonds Are Limited Obligations.”



## Redemption

**Optional Redemption.** The Series 2010 Bonds are subject to optional redemption prior to maturity on any Interest Payment Date, in whole, or in part in Authorized Denominations, from any source of available funds, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2010 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Interest Payment Date on or prior to March 1, 2018	103%
September 1, 2018 and March 1, 2019	102
September 1, 2019 and March 1, 2020	101
September 1, 2020 and thereafter	100

The District is required to give the Trustee written notice of its intention to redeem Series 2010 Bonds pursuant to this subsection not less than 45 days prior to the applicable redemption date, unless such notice is waived by the Trustee.

**Mandatory Redemption from Prepayments of Special Taxes.** The Series 2010 Bonds are subject to mandatory redemption, in whole, or in part in Authorized Denominations, on any Interest Payment Date, from and to the extent of prepaid Special Taxes and any related credit for amounts in the Reserve Fund (the “Reserve Fund Credit”) required to be applied thereto pursuant to the Indenture at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series 2010 Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Interest Payment Date on or prior to March 1, 2018	103%
September 1, 2018 and March 1, 2019	102
September 1, 2019 and March 1, 2020	101
September 1, 2020 and thereafter	100

See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Special Tax Fund” and “—Reserve Fund.”

**Mandatory Sinking Fund Redemption.** The 2010 Bonds maturing on September 1, 2040 (the “2040 Term Bonds”) are subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 2036, at a Redemption Price equal to the principal amount of the 2040 Term Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Principal Amount to be Redeemed</i>
2036	\$400,000
2037	435,000
2038	470,000
2039	505,000
2040 (maturity)	545,000

If some but not all of the 2040 Term Bonds are optionally redeemed, the principal amount of 2040 Term Bonds to be subsequently redeemed from mandatory sinking fund payments will be reduced by the aggregate principal amount of 2040 Term Bonds so redeemed, such reduction to be allocated among redemption dates in amounts of \$5,000 or any integral multiples thereof, as designated by the District in a Written Certificate of the District filed with the Trustee. If some but not all of the 2040 Term Bonds are

redeemed from mandatory sinking fund payments, the principal amount of 2040 Term Bonds to be subsequently redeemed from mandatory sinking fund payments will be reduced by the aggregate principal amount of the 2040 Term Bonds so redeemed, such reduction to be allocated among redemption dates as nearly as practicable on a pro rata basis in amounts of \$5,000 or any integral multiples thereof as determined by the Trustee, notice of which determination shall be given by the Trustee to the District.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption (i) with respect to any optional redemption of Series 2010 Bonds, among maturities of the Series 2010 Bonds as directed in a Written Request of the District, and (ii) with respect to any redemption of Bonds from prepayments of Special Taxes, among maturities of all Series of Bonds on a *pro rata* basis as nearly as practicable. The Trustee shall select for redemption the particular Series 2010 Bonds with the same maturity by lot in any manner in which the Trustee, in its sole discretion, shall deem appropriate. For purposes of such selection, all Series 2010 Bonds shall be deemed to be comprised of separate \$5,000 denominations, and such separate denominations shall be treated as separate Series 2010 Bonds which may be separately redeemed.

***Notice of Redemption.*** If the Series 2010 Bonds are held in book-entry form, notice of redemption will be mailed to DTC and not to the beneficial owners of the Series 2010 Bonds under the DTC book-entry system. Neither the District nor the Trustee is responsible for giving notice of redemption to the beneficial owners. See “—Book-Entry System.”

The Indenture provides that the Trustee on behalf of the District will give notice of any redemption by first class mail to the respective Owners of any Series 2010 Bonds designated for redemption at their respective addresses appearing on the Registration Books at least 30 but not more than 60 days prior to the date fixed for redemption. Such notice of redemption will state the date of the notice, the redemption date, the redemption place and the Redemption Price and shall designate the CUSIP numbers, the bond numbers and the maturity or maturities of the Series 2010 Bonds to be redeemed (except in the event of redemption of all of the Series 2010 Bonds of such maturity or maturities in whole). The notice of redemption must require that the Series 2010 Bonds to be redeemed be surrendered at the Office of the Trustee and give notice that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the Series 2010 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

If, on said date fixed for redemption, moneys for the Redemption Price of all the Series 2010 Bonds to be redeemed, together with interest to said date, would be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof will have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Series 2010 Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Series 2010 Bonds will be held in trust for the account of the Owners of the Series 2010 Bonds so to be redeemed without liability to such Owners for interest thereon. With respect to any notice of any optional redemption of Series 2010 Bonds, unless at the time such notice is given the Series 2010 Bonds to be redeemed shall be deemed to have been paid within the meaning the Indenture, such notice will state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the Redemption Price of, and accrued interest on, the Series 2010 Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the District will not be required to redeem such Series 2010 Bonds. In the event a notice of redemption of Series 2010 Bonds contains such a condition and such moneys are not so received, the redemption of Series 2010 Bonds as described in the conditional notice of redemption will not be made and the Trustee will, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Series of 2010 Bonds pursuant to such notice of redemption.

## Book-Entry System

Except as otherwise provided in the Indenture, the registered Owner of all of the Series 2010 Bonds while they are in book-entry form will be DTC. As long as DTC is the registered owner of the Series 2010 Bonds, references in this Official Statement to the Owners of the Series 2010 Bonds shall refer to DTC and not to the beneficial owners of the Series 2010 Bonds. *Neither the District nor the Trustee gives any assurance that DTC, its participants or others will distribute payments with respect to the Series 2010 Bonds or notices with respect thereto to the beneficial owners thereof or that DTC will otherwise serve and act in the manner described in this Official Statement.* See Appendix F—"INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY AND ITS BOOK-ENTRY SYSTEM" for a further description of DTC and its book-entry system. The information presented therein is based solely on material provided by DTC.

## DEBT SERVICE SCHEDULE

The following is the semi-annual debt service schedule for the Series 2010 Bonds, assuming that no Series 2010 Bonds are redeemed except from mandatory sinking fund redemption.

<i><b>Bond Year Ending September 1</b></i>	<i><b>Principal</b></i>	<i><b>Interest</b></i>	<i><b>Total Annual Debt Service</b></i>
2011	\$ 75,000	\$ 250,759.62	\$ 325,759.62
2012	15,000	317,956.26	332,956.26
2013	20,000	317,675.00	337,675.00
2014	30,000	317,225.00	347,225.00
2015	35,000	316,475.00	351,475.00
2016	45,000	315,468.76	360,468.76
2017	50,000	314,062.50	364,062.50
2018	60,000	312,312.50	372,312.50
2019	70,000	310,062.50	380,062.50
2020	80,000	307,262.50	387,262.50
2021	95,000	303,862.50	398,862.50
2022	105,000	299,587.50	404,587.50
2023	120,000	294,731.26	414,731.26
2024	130,000	289,031.26	419,031.26
2025	145,000	282,531.26	427,531.26
2026	165,000	275,281.26	440,281.26
2027	180,000	266,825.00	446,825.00
2028	200,000	257,600.00	457,600.00
2029	220,000	247,100.00	467,100.00
2030	240,000	235,275.00	475,275.00
2031	260,000	222,375.00	482,375.00
2032	285,000	208,075.00	493,075.00
2033	310,000	192,400.00	502,400.00
2034	340,000	175,350.00	515,350.00
2035	370,000	156,225.00	526,225.00
2036	400,000	135,412.50	535,412.50
2037	435,000	112,412.50	547,412.50
2038	470,000	87,400.00	557,400.00
2039	505,000	60,375.00	565,375.00
2040	545,000	31,337.50	576,337.50
Total	<u>\$ 6,000,000</u>	<u>\$ 7,212,447.18</u>	<u>\$ 13,212,447.18</u>

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Series 2010 Bonds are shown in the following table:

### Estimated Sources of Funds

Principal Amount of Series 2010 Bonds	\$ 6,000,000.00
Less Original Issue Discount	(27,830.15)
Special Tax Proceeds <sup>(1)</sup>	81,949.15
Total Sources of Funds	<u>\$ 6,054,119.00</u>

### Estimated Uses of Funds

Costs of Issuance <sup>(2)</sup>	\$ 832,847.69
Reserve Fund <sup>(3)</sup>	554,471.81
Improvement Fund	1,271,253.22
Repayment of Advance <sup>(4)</sup>	3,380,546.28
Special Tax Fund	15,000.00
Total Uses of Funds	<u>\$ 6,054,119.00</u>

<sup>(1)</sup> Represents Special Taxes collected from prior levies.

<sup>(2)</sup> Includes legal fees, trustee fees, appraisal fees, financial advisor fees, underwriter's discount and other costs of delivering the Series 2010 Bonds, including reimbursements to Cascades Park for funds advanced to pay consultant costs.

<sup>(3)</sup> Equal to the Reserve Requirement for the Series 2010 Bonds.

<sup>(4)</sup> Repayment to Cascades Park for advance made pursuant to the Advance and Reimbursement Agreement and applied to the prepayment of special taxes of City of Los Angeles Community Facilities District No. 3 (Cascades Business Park and Golf Course). See "THE COMMUNITY FACILITIES DISTRICT—The Facilities."

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS

### **General**

The Series 2010 Bonds are limited obligations of the District, and, except as otherwise provided in the Indenture, they are payable solely from Net Special Tax Revenues. The Indenture defines "Net Special Tax Revenues" to mean Special Tax Revenues less amounts required to pay Administrative Expenses (subject to the limitations contained in the Indenture as to the amounts available to pay Administrative Expenses at any particular time). The term "Special Tax Revenues" is defined in the Indenture to mean the proceeds of the Special Taxes received by or on behalf of the District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes (which shall be limited to the amount of said lien and interest and penalties thereon). The Indenture defines the term "Special Taxes" as the special taxes levied within the District pursuant to the Act, the Ordinance Levying Special Taxes and the Indenture.

The Special Taxes in the District can only be levied on the Taxable Property which consists of the 176 completed attached condominiums in Villages 1, 2 and 6 and the approximately 9.04 acres of land owned by Cascades Park in Village 3. Under no circumstances may the amount of Special Taxes levied by the District in any year exceed the maximum rates approved by the qualified electors within the District, as set forth in the Rate and Method of Apportionment. A copy of the Rate and Method of Apportionment appears in Appendix A.

In addition to the Net Special Tax Revenues, the amounts held by the Trustee in the Special Tax Fund, the Bond Fund and the Reserve Fund are pledged pursuant to the Indenture to secure the payment of the principal of, premium, if any, and interest on the Series 2010 Bonds and any Additional Bonds in accordance with their respective terms, the Indenture and the Act. However, those amounts are pledged subject to the provisions of the Indenture permitting the application thereof for the purposes set forth in the Indenture.



Amounts on deposit in the Costs of Issuance Fund, the Improvement Fund, the Administrative Expense Fund and the Rebate Fund are not pledged to the payment of any of the Series 2010 Bonds or any Additional Bonds.

Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the City, the State or any political subdivision thereof is pledged to the payment of the Series 2010 Bonds. The Series 2010 Bonds are not obligations of the City, but are limited obligations of the District as described herein.

### **Special Taxes**

Pursuant to the Indenture, the District has covenanted that it will fix and levy the amount of Special Taxes in each Fiscal Year in accordance with the Rate and Method of Apportionment in an amount sufficient (subject to the limitations contained in the Rate and Method of Apportionment as to the maximum Special Tax that may be levied) to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Corresponding Bond Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Certain Covenants of the Communities Facilities District.” Notwithstanding this covenant, the amount of Special Taxes actually collected each year may be less than the amount described for a variety of different reasons. See “RISK FACTORS—Levy and Collection of Special Taxes.”

The District has levied the Special Taxes on “Developed Property” (defined below) since Fiscal Year 2008-09. The Special Tax is expected to be payable and collected in the same manner and at the same time and in the same installment as general taxes on real property. See “—Collection” below. Although the applicable Special Tax constitutes a lien on each Assessor’s Parcel of Taxable Property within the District, it does not constitute the personal indebtedness of the owner of such Assessor’s Parcel. There is no assurance that the owner of such Assessor’s Parcel will be financially able to pay the applicable Special Tax or that such owner will do so, even if it is financially able to make such payment.

### **Rate and Method of Apportionment**

The Rate and Method of Apportionment is to be applied by the District each year for the purpose of determining the amount of the Special Tax to be levied against each Assessor’s Parcel of Taxable Property within the District. For purposes of the discussion of the Rate and Method of Apportionment only, terms with initial capital letters that are not otherwise defined in this Official Statement shall have the respective meanings assigned to them in the Rate and Method of Apportionment, a copy of which appears in Appendix A.

The District contains approximately 171 gross acres, of which only approximately 33 acres are currently planned to be Taxable Property. The Rate and Method of Apportionment defines the term “Taxable Property” as all of the Assessor’s Parcels within the boundaries of the District which are not within the Exempt Area and that are not exempt from the Special Tax for such Fiscal Year, pursuant to law or the Rate and Method of Apportionment. Taxable Property consists of the property within Villages 1, 2, 3 and 6. Pursuant to Section 54430 of the Act, properties of federal, state or local governments are exempt from the Special Tax except that, under Section 53317.3 of the Act, property that is not otherwise exempt and that is acquired by a public agency through a negotiated transaction or by gift or demise remains subject to the Special Tax. It is not clear under the Act whether property acquired by a public entity through a tax sale or foreclosure based upon the failure of a non-exempt person or entity to pay property taxes would remain subject to the Special Tax under Section 53317.3 of the Act or would become exempt from the Special Tax under Section 53340 of the Act. See “RISK FACTORS—Exempt Properties.” Pursuant to Section 53317.5 of the Act, if property that is subject to the Special Tax is acquired by a public agency through eminent domain proceedings, the obligation to pay the Special Tax is to be treated as if it were a special annual assessment. For this purpose, the present value of the obligation to pay the Special Tax in order to pay principal of and interest on any Bonds Outstanding is to be treated the same as a fixed lien special annual assessment.

The application of the Rate and Method of Apportionment involves a number of separate steps that are to be performed by the District. These steps are summarized below.

***Assignment of Assessor's Parcels to Land Use Categories.*** Each Fiscal Year, all property within the District shall be classified as Taxable Property, Public Property, Property Owner Association Property, or Religious Property. All Taxable Property within the District shall then be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the Rate and Method of Apportionment. In general "Developed Property" means for each Fiscal Year, all Taxable Property, exclusive of Other Taxable Property, for which a building for new construction was issued after January 1, 2006 but prior to January 1 of the prior Fiscal Year. Developed Property is further assigned as Residential Property and Non-Residential Property. The Assigned Special Tax for Residential Property are based on the Residential Floor Area of the dwelling unit(s) located on the Assessor's Parcel and the Assigned Special Tax for Non-Residential Property are based on the Acreage of the Assessor's Parcel.

***Determination of Maximum Special Tax.*** Each Assessor's Parcel of Developed Property in a given Land Use Class will have an Assigned Special Tax. The various Assigned Special Taxes for the Land Use Classes that were applicable in Fiscal Year 2007-08 are set forth in the Rate and Method of Apportionment. For each subsequent Fiscal Year, the Assigned Special Tax is increased by 2% of the amount in effect for the previous Fiscal Year. For Residential Property, the Assigned Special Tax for Fiscal Year 2010-11 ranges from \$1,679.89 unit to \$2,592.53 per unit depending on the square footage of such Residential Property. The Assigned Special Tax for Non-Residential Property is \$19,199.38 per acre. Each Assessor's Parcel of Developed Property in each Legal Lot may also be subject to a Backup Special Tax. The Backup Special Tax for Fiscal Year 2010-11 ranges from \$15,402.38 per acre to \$24,778.15 per acre for 2010-11 and increases on July 1 of each Fiscal Year, by an amount equal to two percent (2%) of the Backup Special Tax for the previous year. The Maximum Special Tax for each Assessor's Parcel classified as Developed Property is the greater of (i) the amount derived by application of the Assigned Special Tax for such Fiscal Year or (ii) the amount derived by the application of the Backup Special Tax for such Fiscal Year.

The Maximum Special Tax for each Assessor's Parcel classified as Undeveloped Property and Other Taxable Property for Fiscal Year 2010-11 is \$19,316.11 per Acre. For each subsequent Fiscal Year, the Maximum Special Tax for Undeveloped Property and Other Taxable Property is increased by 2% of the amount in effect in the previous Fiscal Year.

***Method of Apportionment of the Special Tax.*** The Special Tax is to be levied each Fiscal Year in the manner described below until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax Requirement for any Fiscal Year is the amount required, after taking into account amounts held in the funds and accounts under the Indenture which are intended to be used to pay debt service on Outstanding Bonds in the calendar year that begins such Fiscal Year, to pay, among other things, regularly scheduled debt service on all Outstanding Bonds due in said calendar year, any amounts required to replenish the Reserve Fund, Administrative Expenses and reasonably anticipated delinquent Special Taxes.

The Special Taxes are required first to be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax. If additional money is needed in order to cause the total amount levied to equal the Special Tax Requirement, the Special Taxes are next required to be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax applicable thereto. If additional money is still needed to satisfy the Special Tax Requirement, the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax will be increased in equal percentages from the Assigned Special Tax up to the applicable Maximum Special Tax. If additional money is still needed to satisfy the Special Tax Requirement, then the Special Taxes are next required to be levied proportionately on each Assessor's Parcel of Taxable Property Owner Association or Taxable Religious Property at up to the Maximum Special Tax for Other Taxable Property. If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall

be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Other Taxable Property.

**Exemptions.** The Rate and Method of Apportionment provides that no Special Tax shall be levied on property within the Exempt Area. Pursuant to the Rate and Method of Apportionment, Property Owner Association Property, Public Property, and Religious Property that is not within the Exempt Area shall be considered Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property and shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth or fifth step described in the preceding paragraph at up to 100% of the applicable Maximum Special Tax for Other Taxable Property. However, in the case of certain public property it may not be legally possible to levy the Special Tax. See "RISK FACTORS—Exempt Properties."

**Prepayment of Special Tax.** The Special Tax obligation applicable to an Assessor's Parcel of Developed Property or Undeveloped Property for which a building permit has been issued may be prepaid and permanently satisfied as described in the Rate and Method of Apportionment. The Maximum Special Tax obligation applicable to an Assessor's Parcel of Developed Property or Undeveloped Property for which a building permit has been issued may be partially prepaid as provided for in the Rate and Method of Apportionment.

**Limitations.** In general, the Special Tax is required to be levied and collected until the Bonds have been retired. However, the Special Tax cannot be levied after Fiscal Year 2041-2042. Moreover, notwithstanding the description of the manner in which the Special Tax is to be apportioned to the Assessor's Parcels within the District set forth above, under no circumstances may the Special Tax levied on any Assessor's Parcel of Residential Property be increased by more than 10% of the Special Tax levied thereon in the prior Fiscal Year as a result of delinquencies or defaults of other property owners within the District.

## Collection

Subject to the District's covenant to pursue accelerated foreclosure proceedings under certain circumstances described below, unless otherwise provided by the City Council, the Special Taxes are to be collected in the same manner and at the same time as general property taxes are collected. They will be subject to the same penalties and interest and the same procedure, sale and lien priority in the case of delinquency as is provided for *ad valorem* property taxes. Notwithstanding the foregoing, the Special Tax obligation of certain Assessor's Parcels may be prepaid as described above, and the District may bill the Special Tax directly to the owners of property within the District and may collect special taxes at a different time or in a different manner if necessary to meet its financial obligations.

As discussed above, the District began levying Special Taxes on Developed Property in Fiscal Year 2008-09. Table 1 below sets forth the Special Tax collection history for Fiscal Years 2008-09 through 2009-10.

**TABLE 1  
SPECIAL TAX COLLECTIONS**

<i>Fiscal Year</i>	<i>Total Levy</i>	<i>Amount Delinquent as of 6/30 of Year Levied</i>	<i>Delinquency Rate as of 6/30 of Year Levied</i>	<i>Current Amount Delinquent (as of 9/14/2010)</i>	<i>Current Delinquency Rate (as of 9/14/2010)</i>
2008-09	\$190,684	\$8,634 <sup>(1)</sup>	4.53%	\$3,299 <sup>(2)</sup>	1.73%
2009-10	220,774	7,067	3.20	4,526	2.05

<sup>(1)</sup> Data shown is as of October 9, 2009. Data as of June 30, 2009 is not available.

<sup>(2)</sup> The County of Los Angeles permits delinquent property owners to pay current year taxes before delinquent prior year taxes.  
Source: David Taussig & Associates

## **Covenant for Superior Court Foreclosure**

Pursuant to Section 53356.1 of the Act, the District has covenanted in the Indenture that it will determine or cause to be determined, no later than August 15 of each year, whether or not any owners of property within the District are delinquent in the payment of Special Taxes and that, if such delinquencies exist, the District will order and cause to be commenced no later than October 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due. Notwithstanding the foregoing, the District is not required under the Indenture to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the District for such Fiscal Year is less than 5% of the total Special Taxes levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the District determines that any single property owner is delinquent in excess of \$3,000 in the payment of the Special Tax, the District will be obligated to diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

The mere commencement of foreclosure proceedings will not assure a prompt and favorable resolution of Special Tax delinquencies. The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited. See “RISK FACTORS—Bankruptcy and Legal Delays” and “—FDIC/Federal Government Interests in Properties.” Moreover, even if a judgment of foreclosure and order of sale is obtained, the District must cause a notice of levy to be issued. Under current law, the property owner has 120 days from the date of service of the notice of levy in which to redeem the subject property. If the property owner fails to redeem the property and it is sold, the property owner’s only remedy is an action to set aside the sale, which action must be brought within 90 days of the date of sale. If such an action results in the setting aside of the foreclosure sale, the judgment is revived, and the District would be entitled to receive interest on the revived judgment as if the sale had not been made. Under former law a property owner had a period of one year within which to redeem property to be sold, and the constitutionality of the legislation that eliminated the one year redemption period has not been tested.

There can be no assurance that, even if the subject property is sold, the proceeds from such sale will be sufficient to pay the delinquent installments of the Special Tax. The Act does not require the District or any other governmental agency to purchase or otherwise acquire any Assessor’s Parcel being sold if there is no other purchaser at such sale. The Act does require that property being sold pursuant to foreclosure under the Act must be sold for not less than the judgment amount (which must include reasonable attorneys’ fees, together with interest, penalties, and other authorized charges and costs) plus post judgment interest and authorized costs, unless a lower bid price is authorized by the Owners of 75% by value of the Bonds Outstanding.

## **Debt Service Coverage From Completed Homes**

The following table sets forth the Assigned Special Taxes for the 176 completed residential units, debt service on the Series 2010 Bonds and resulting debt service coverage for Fiscal Year 2011. The Series 2010 Bonds have been sized so that the Assigned Special Taxes on the 176 completed units in Villages 1, 2 and 6 equal at least Assumed Administrative Expenses plus 110% of annual debt service. The District does not anticipate levying Special Taxes on the Taxable Property within Village 3 until such time as the property constitutes “Developed Property” pursuant to the Rate and Method of Apportionment. Notwithstanding the foregoing, should additional building permits be issued in the District, Special Taxes levied on completed units could be less than shown on Table 2 below in future Fiscal Years until such time as such additional units are completed. See “RISK FACTORS—Potential Dilution of Credit During Buildout of Village 3.”



**TABLE 2**  
**DEBT SERVICE COVERAGE TABLE**

<i>Fiscal Year</i>	<i>Assigned Special Tax<sup>(1)</sup></i>	<i>Actual Special Tax Levy<sup>(2)</sup></i>	<i>CFD Administration</i>	<i>Net Special Tax Revenue<sup>(3)</sup></i>	<i>Debt Service</i>	<i>Coverage from Assigned Special Tax<sup>(4)</sup></i>
2011	\$387,363	\$354,022	\$25,581	\$328,441	\$325,760	111%

(1) Based on Assigned Special Taxes for 176 developed residential units. Assigned special taxes for all subsequent years escalates annually at 2%.

(2) Based on actual Fiscal Year 2010-11 Special Tax levy on 176 developed units.

(3) Actual Special Tax Levy less CFD Administration.

(4) Assigned Special Tax less CFD Administration divided by Debt Service. Pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to the Assigned Special Tax in all years. See "RISK FACTORS—Potential Dilution of Credit During Buildout of Village 3."

Source: David Taussig & Associates

### **Property Values**

In order to provide information with respect to the value of the property within the District, the City engaged Harris Realty Appraisal of Newport Beach, California (the "Appraiser"), to prepare an appraisal report dated April 2, 2010 (the "Original Appraisal"). The president of Harris Realty Appraisal, who was actively involved in the preparation of the Appraisal, has an "MAI" designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the City through a competitive process and has no material relationships with the City, the District, Cascades Park or KB Home other than the relationship represented by the engagement to prepare the Appraisal. The City instructed the Appraiser to prepare its analysis and report in conformity with City-approved guidelines and the Appraisal Standards for land secured financings published by the California Debt and Investment Advisory Commission, the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. A copy of the Appraisal is included as Appendix B to this Official Statement.

The purpose of the Appraisal was to estimate the "as is" aggregate market value for the fee simple estate, subject to special tax and special assessment liens, of all of the property within the District that is expected to be subject to the Special Tax as of April 1, 2010.

Subject to the contingencies, assumptions and limiting conditions set forth in the Appraisal, the Appraiser concluded that, as of April 1, 2010, the minimum market value of all of the property within the District that is expected to be subject to the Special Tax was \$55,975,000. Of this value, \$49,900,000 was attributable to property owned by individual homeowners, and \$6,075,000 to the 20 units owned by KB Home as of April 1, 2010. The Appraiser assigned no value to the property owned by Cascades Park in Village 3.

In determining the minimum market value for the 156 completed homes owned by individual homeowners as of April 1, 2010, the Appraiser used certain mass appraisal techniques. Based on information provided by KB Home, the Appraiser determined that the weighted average unit size of all of the completed and sold units in the District is 1,731 square feet. Based on the actual sales in the subject tracts, a review of actively selling projects in the general market area of the District, the Appraiser's knowledge of the current residential market and current projections of the near-term residential market in Los Angeles County, the Appraiser estimated a value of \$185.00 per square foot for the average size unit. Based on the weighted

average unit size and the value per square foot, the Appraiser estimates the minimum market value for the average size unit based on the 156 closed sales is \$320,000. The Appraiser then multiplied the minimum market value per unit by the number of completed and sold units to arrive at a minimum market value of \$49,900,000 for the 156 completed and sold units.

In determining the minimum market value for the 20 units owned by KB Home which as of April 1, 2010 were in escrow to home purchasers, the Appraiser used the base sales prices for such units less a 10% deduction. Additionally, the Appraiser deducted \$225,000 from the minimum market value for the costs to complete certain landscaping and sidewalk improvements which the Appraiser considered minimal.

Based on a static residual analysis, the Appraiser has determined that the property owned by Cascades Park within Village 3 has no value.

Subsequent to the date of the Appraisal, the Appraiser has prepared Summary Appraisal Report dated September 15, 2010 (the "Update Appraisal") which estimates that as of September 15, 2010 the value of the Taxable Property within the District was not less than the estimated value set forth in the Appraisal. See Appendix B-1 for a copy of the Update Appraisal.

The contingencies, assumptions and limiting conditions identified in the Appraisal and the Update Appraisal are set forth therein. Reference is made to Appendix B and Appendix B-1 for a complete list and full discussion thereof. In the event that any of the contingencies, assumptions and limiting conditions are not actually realized, the value of the property within the District may be less than the amount reported in the Appraisal. In any case, there can be no assurance that any portion of the property within the District would actually sell for the price indicated by the Appraisal.

#### **Estimated Appraised Value-to-Lien**

The following table sets forth certain information with respect to the parcels for which individual estimates of value are included in the Appraisal or the Update Appraisal. The table below allocates the special tax lien and share of Series 2010 Bonds based on the Fiscal Year 2010-11 Special Tax Levy. Based on the foregoing, 100% of the Fiscal Year 2010-11 Special Tax Levy is projected to be levied on the 176 completed and sold homes and no lien in favor of the 2010 Bonds is assumed on the Undeveloped Property owned by Cascades Park in Village 3. The property in Village 3 is subject to the Special Tax Levy in the event that the Assigned Special Taxes on the Developed Property do not satisfy the Special Tax Requirement. The District does not anticipate levying Special Taxes on the Taxable Property within Village 3 until such time as the property constitutes "Developed Property" pursuant to the Rate and Method of Apportionment. Notwithstanding the foregoing, should additional building permits be issued in the District, Special Taxes levied on completed units could be less than shown on Table 3 below in future Fiscal Years until such time as such additional units are completed. See "RISK FACTORS—Potential Dilution of Credit During Buildout of Village 3."

**TABLE NO. 3**  
**VALUE-TO-LIEN AND OTHER INFORMATION**  
**RELATING TO CERTAIN PARCELS**

<i>Development Status/Property Owner<sup>(1)(2)</sup></i>	<i>Units</i>	<i>CFD No. 8 FY 2010-11 Special Tax Levy</i>	<i>Percentage of FY 2010-11 Levy</i>	<i>Share of CFD No. 8 Bond<sup>(3)</sup></i>	<i>Overlapping Debt<sup>(4)</sup></i>	<i>Total Debt</i>	<i>Appraised Value<sup>(5)</sup></i>	<i>Appraised Value-to-Lien Ratio<sup>(6)</sup></i>
Developed Property								
Individual Owners	<u>176</u>	<u>\$ 354,022</u>	<u>100.00%</u>	<u>\$ 6,000,000</u>	<u>\$ 1,241,323</u>	<u>\$7,241,323</u>	<u>\$ 55,975,000</u>	<u>7.73</u>
Undeveloped Property								
Cascades Park	<u>111</u>	<u>\$ 0</u>	<u>0.00%</u>	<u>0</u>	<u>\$ 449,216</u>	<u>\$ 449,216</u>	<u>\$ 0</u>	<u>0.00</u>
Total	<u>287</u>	<u>\$ 354,022</u>	<u>100.00%</u>	<u>\$ 6,000,000</u>	<u>\$ 1,690,539</u>	<u>\$7,690,539</u>	<u>\$ 55,975,000</u>	<u>7.28</u>

(1) Property ownership as of September 15, 2010 as stated in the Updated Appraisal.

(2) Based upon development status as of April 1, 2010.

(3) Share of District's Bonds based upon the Fiscal Year 2010-11 Special Tax levy.

(4) Overlapping debt based on the Fiscal Year 2010-11 levy. See Table No. 4 herein.

(5) As provided in the Appraisal and Updated Appraisal.

(6) Appraised Value column divided by Total Debt column.

Sources: The Appraiser as to "Owner" and "Appraised Value," and David Taussig & Associates, Inc. as to all other information.

### Direct and Overlapping Debt

Contained within the boundaries of the District are numerous overlapping local agencies providing governmental services. Some of these local agencies have outstanding bonds, and/or the authority to issue bonds, payable from taxes or assessments. The existing and authorized indebtedness payable from taxes and assessments that may be levied upon the property within the District is shown in the table below. In addition to current debt, new community facilities districts and/or special assessment districts could be formed in the future encompassing all or a portion of the property within the District; and, such districts or the agencies that formed them could issue more bonds and levy additional special taxes or assessments on parity with the lien of the Special Taxes.

**TABLE NO. 4**  
**ESTIMATED DIRECT AND OVERLAPPING DEBT SUMMARY**

<i>Overlapping District</i>	<i>Actual Fiscal Year 2010-11 Total Levy</i>	<i>Amount of Levy on Parcels in the District<sup>(1)</sup></i>	<i>Percent of Levy on Parcels in the District</i>	<i>Total Debt Outstanding<sup>(2)</sup></i>	<i>District Share of Total Debt Outstanding</i>
Metropolitan Water District	\$ 95,384,994	\$ 2,632	0.0028%	\$ 255,075,000	\$ 7,039
City of Los Angeles G.O. Bonds	137,172,465	27,671	0.0202	1,255,830,000	253,332
Los Angeles Unified School District	1,426,185,425	133,004	0.0093	11,596,250,000	1,081,451
Los Angeles Community College District	320,808,568	28,678	0.0089	3,536,745,000	316,157
Los Angeles Emergency 911 Bond Tax	21,039,435	1,282	0.0061	58,010,000	3,534
Los Angeles County Parks District	80,310,739	10,813	0.0135	197,285,000	26,563
City of Los Angeles Landscape/Lighting AD No. 96-1	25,000,000 <sup>(3)</sup>	2,375	0.0095	25,910,000	<u>2,462</u>
Estimated Share of Overlapping Debt Allocable to the District					\$ 1,690,539
Plus: Series 2010 Bonds					<u>\$ 6,000,000</u>
Estimated Share of Direct and Overlapping Debt Allocable to the District <input type="checkbox"/>					\$ 7,690,539

(1) Based on actual FY 2010-11 tax bills.

(2) Outstanding debt as of October 1, 2010.

(3) Only a portion of this amount will be used for debt service.

Source: David Taussig & Associates, Inc.

## Sample Property Tax Bill

The following two tables provide sample property tax bills for the residential units in the District.

**TABLE NO. 5A**  
**SAMPLE PROPERTY TAX BILL**  
**(FISCAL YEAR 2010-11)**  
**SUMMERLIN PRODUCT**  
**TAX CLASS 5: SFD (1,300 - 1,599 SF)**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Total AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
SALES PRICE <sup>(1)</sup>	\$314,990		
LOT SIZE <sup>(2)</sup>	5,718 Square Feet		
HOME SIZE <sup>(3)</sup>	1,547 Square Feet		
<i>AD VALOREM PROPERTY TAXES<sup>(4)</sup></i>			
Basic Levy	1.00000%	\$3,149.90	
City of Los Angeles G.O. Bonds	0.03890	122.52	
Los Angeles Unified School District	0.18695	588.89	
Los Angeles Community College District	0.04031	126.97	
Metropolitan Water District	<u>0.00370</u>	<u>11.65</u>	
Total General Property Taxes and Overrides	<u>1.26986%</u>	<u>\$3,999.93</u>	
<i>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</i>			
City of Los Angeles Stormwater <sup>(5)</sup>		\$ 18.79	
Los Angeles County Parks District <sup>(5)</sup>		16.60	
County of Los Angeles Flood Control <sup>(5)</sup>		23.56	
County of Los Angeles Trauma & Emergency Services <sup>(5)</sup>		60.64	
City of Los Angeles Landscape/Lighting AD No. 96-1 <sup>(5)</sup>		15.57	
Los Angeles Emergency 911 Bond Tax <sup>(5)</sup>		14.25	
City of Los Angeles CFD No. 8 <sup>(6)</sup>		<u>1,990.17</u>	<u>\$2,239.67</u>
Total Assessments and Parcel Charges		<u>\$2,139.58</u>	<u>\$2,389.08</u>
PROJECTED TOTAL PROPERTY TAXES		<u>\$6,139.51</u>	<u>\$6,389.01</u>
Projected Total Effective Tax Rate (as % of Sales Price)		1.9491%	2.0283%

<sup>(1)</sup> Based on base sales price as shown in the Appraisal.

<sup>(2)</sup> Based on average lot size for units in Tax Class 5.

<sup>(3)</sup> Home size is based on product type for Tax Class 5 as shown in the Appraisal.

<sup>(4)</sup> Based on rates for FY 2010-11 for Tax Rate Area 000-016. Tax rates subject to change for future years.

<sup>(5)</sup> Based on actual FY 2010-11 tax rate for typical Tax Class 5 unit in CFD 8.

<sup>(6)</sup> Based on actual FY 2010-11 Special Tax which is equal to 91.39% of Assigned Special Tax. Assigned Special Tax is equal to \$2,177.60 for single-family residences greater than 1,300 square feet and less than or equal to 1,599 square feet. Maximum Special Tax is based on the greater of the Assigned Special Tax per unit or the Backup Special Tax per unit. The estimated Backup Special Tax is \$2,239.67 per single-family residence for property located within Parcel 1 of LLA No. 207-1009. The Assigned and Backup Special Tax rates will escalate 2% annually.

Source: David Taussig and Associates, Inc.



**TABLE NO. 5B**  
**SAMPLE PROPERTY TAX BILL**  
**(FISCAL YEAR 2010-11)**  
**BRIGHTON PRODUCT**  
**TAX CLASS 7: SFD (less than 1,100 SF)**

<i>Assessed Valuation and Property Taxes</i>	<i>Percent of Total AV</i>	<i>Expected Amount</i>	<i>Maximum Amount</i>
SALES PRICE <sup>(1)</sup>	\$259,990		
LOT SIZE <sup>(2)</sup>	5,718 Square Feet		
HOME SIZE <sup>(3)</sup>	1,094 Square Feet		
<i>AD VALOREM PROPERTY TAXES<sup>(4)</sup></i>			
Basic Levy	1.00000%	\$2,599.90	
City of Los Angeles G.O. Bonds	0.03890	101.12	
Los Angeles Unified School District	0.18695	486.06	
Los Angeles Community College District	0.04031	104.80	
Metropolitan Water District	<u>0.00370</u>	<u>9.62</u>	
Total General Property Taxes and Overrides	<u>1.26986%</u>	<u>\$3,301.51</u>	
<i>ASSESSMENTS, SPECIAL TAXES AND PARCEL CHARGES</i>			
City of Los Angeles Stormwater <sup>(5)</sup>		\$ 17.81	
Los Angeles County Park District <sup>(5)</sup>		16.49	
County of Los Angeles Flood Control <sup>(5)</sup>		22.34	
County of Los Angeles Trauma & Emergency Services <sup>(5)</sup>		42.33	
City of Los Angeles Landscape/Lighting AD No. 96-1 <sup>(5)</sup>		15.46	
Los Angeles Emergency 911 Bond Tax <sup>(5)</sup>		9.80	
City of Los Angeles CFD No. 8 <sup>(6)</sup>		<u>1,535.30</u>	<u>\$2,239.67</u>
Total Assessments and Parcel Charges		<u>\$1,659.53</u>	<u>\$2,363.90</u>
PROJECTED TOTAL PROPERTY TAXES		<u>\$4,961.04</u>	<u>\$5,665.41</u>
Projected Total Effective Tax Rate (as % of Sales Price)		1.9082%	2.1791%

(1) Based on base sales price as shown in the Appraisal.

(2) Based on average lot size for units in Tax Class 7.

(3) Home size is based on product type for Tax Class 7 as shown in the Appraisal.

(4) Based on rates for FY 2010-11 for Tax Rate Area 000-016. Tax rates subject to change for future years.

(5) Based on actual FY 2010-11 tax rate for typical Tax Class 7 unit in CFD 8.

(6) Based on actual FY 2010-11 Special Tax which is equal to 91.39% of Assigned Special Tax. Assigned Special Tax is equal to \$1,679.89 for single-family residences less than or equal to 1,100 square feet. Maximum Special Tax is based on the greater of the Assigned Special Tax per unit or the Backup Special Tax per unit. The estimated Backup Special Tax is \$2,239.67 per single-family residence for property located within Parcel 1 of LLA No. 207-1009. The Assigned and Backup Special Tax rates will escalate 2% annually.

Source: David Taussig and Associates, Inc.

### **Special Tax Fund**

The Indenture provides that the Trustee will establish and maintain a separate fund designated the "Special Tax Fund." The Indenture requires that the District transfer Special Tax Revenues (other than prepaid Special Taxes) to the Trustee for deposit into the Special Tax Fund no later than ten Business Days after the District's receipt thereof. On the Business Day immediately preceding each Interest Payment Date, the Trustee is required by the Indenture to make transfers from the Special Tax Fund to the Administrative Expense Fund, the Interest Account in the Bond Fund, the Principal Account in the Bond Fund and the Reserve Fund in the

amounts and in the priority specified in the Indenture. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

No later than ten Business Days after the receipt by the District of any prepaid Special Taxes, the District is required to transfer such prepaid Special Taxes to the Trustee and, in connection therewith, deliver to the Trustee a Written Certificate identifying the portion of the amount so transferred that represents the Defeasance Amount (which amount is to be deposited in the Redemption Account to be applied to the redemption of Bonds) and specifying (i) the date on which such Defeasance Amount and the earnings thereon are to be applied to the redemption of Bonds, (ii) the portion of such Defeasance Amount and the earnings thereon to be applied to the payment of the Redemption Price of such Bonds and (iii) the portion, if any, of such Defeasance Amount and the earnings thereon to be applied to the payment of interest on such Bonds.

### **Reserve Fund**

The Indenture provides that the Trustee will establish and maintain a special fund designated the "Reserve Fund." On the Closing Date, the Trustee will deposit in the Reserve Fund the amount specified under the caption "ESTIMATED SOURCES AND USES OF FUNDS." The Trustee is also required, on the Business Day immediately preceding each Interest Payment Date, transfer from the Special Tax Fund (after the requisite transfers to the Administrative Expense Fund, the Interest Account and the Principal Account) the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement. The Indenture defines "Reserve Requirement" to mean, as of the date of any calculation, the least of (i) 10% of the original aggregate principal amount of the Bonds, (ii) Maximum Annual Debt Service and (iii) 125% of Average Annual Debt Service.

Except as otherwise provided in the Indenture, all amounts deposited in the Reserve Fund are to be used and withdrawn by the Trustee solely for the purpose of (i) making transfers to the Interest Account in accordance with the Indenture in the event of any deficiency at any time in the Interest Account of the amount then required for payment of the interest on the Bonds, (ii) making transfers to the Principal Account in accordance with the Indenture in the event of any deficiency at any time in the Principal Account of the amount then required for payment of the principal of the Bonds and (iii) redeeming Bonds if and to the extent so provided in the Indenture.

No later than ten Business Days after receipt by the District of any prepaid Special Taxes, the District is required to deliver to the Trustee a Written Request specifying the amount of the Reserve Fund Credit, if any, to be granted pursuant to the Rate and Method of Apportionment in connection with such prepayment and directing the Trustee to transfer such amount from the Reserve Fund to the Redemption Account. Upon receipt of such Written Request, the Trustee is required to so transfer said amount. Additionally, if (i) Bonds are defeased in accordance with the Indenture (other than a defeasance resulting from the prepayment of Special Taxes), (ii) such defeasance results in a reduction of the Reserve Requirement, (iii) the amount on deposit in the Reserve Fund exceeds the Reserve Requirement as so reduced, and (iv) the Trustee is so directed in a Written Request of the District, the Trustee is required to transfer an amount equal to the amount of such excess from the Reserve Fund to the entity or fund so specified in such Written Request, to be applied to such defeasance.

### **Investment of Moneys**

All moneys held by the Trustee in any of the funds or accounts established pursuant to the Indenture are required to be invested by the Trustee solely in Permitted Investments, as directed in writing by the District. As used in the Indenture, the phrase "Permitted Investments" includes a variety of investments, some of which may not be rated by a national rating service. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

## **Additional Bonds**

Pursuant to the Ordinance of Formation, the District is authorized to issue up to \$10,000,000 in Bonds (including the \$6,000,000 aggregate principal amount of the Series 2010 Bonds) to finance Facilities. Pursuant to the Indenture, the District may at any time issue one or more Series of Additional Bonds payable from Net Special Tax Revenues on a parity with the Series 2010 Bonds provided that certain conditions precedent have been satisfied including but not limited to the District having received a certificate or certificates from one or more Independent Consultants which, when taken together, certify that:

(i) on the basis of the parcels of land in the Community Facilities District that are Certificated Parcels as of the date of issuance of such Additional Bonds, for each Fiscal Year that the Series 2010 Bonds and Additional Bonds will be Outstanding, the amount of Assigned Special Taxes that may be levied on all such Certificated Parcels pursuant to the Act, the Ordinance and the Rate and Method in such Fiscal Year is at least equal to the sum of (A) 110% of Annual Debt Service for the Corresponding Bond Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (B) Assumed Administrative Expenses for such Fiscal Year;

(ii) the sum of (A) the Assessed Value of Certificated Parcels for which a Qualified Appraisal Report has not been provided, plus (B) the Appraised Value of parcels of Certificated Parcels for which a Qualified Appraisal Report has been provided, as such Appraised Value is shown in such Qualified Appraisal Report, is at least four times the sum of (I) the aggregate principal amount of Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (II) the aggregate principal amount of all fixed lien special assessments levied on Certificated Parcels, based upon information from the most recent Fiscal Year for which such information is available, plus (III) a portion of the aggregate principal amount of Other District Bonds equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on Certificated Parcels, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent Fiscal Year for which such information is available.

The Indenture defines “Certificated Parcel” to mean, as of any date, an Assessor’s Parcel of Taxable Property within the District that (a) has a single family residential unit constructed thereon for which a certificate of occupancy was issued by the City no later than 90 days prior to such date, or (b) has a commercial building constructed thereon for which a certificate of occupancy was issued by the City no later than 90 days prior to such date.

Notwithstanding the foregoing, if (i) such Additional Bonds are being issued to refund previously issued Bonds, and (ii) Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the issuance of such Additional Bonds, the receipt of the certificate described in paragraph (c), above, shall not be a condition precedent to the issuance of such Additional Bonds. See APPENDIX C—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Bonds.”

Nothing contained in the Indenture limits the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Series 2010 Bonds theretofore issued under the Indenture will be Outstanding.

## **THE COMMUNITY FACILITIES DISTRICT**

### **General Description of the District**

The District is located in the northeast portion of the San Fernando Valley in the Sylmar area of the City. The District is located in the foothills of the Angeles National Forest north of the Golden State Freeway (I-5) and Foothill Freeway (I-210) interchange.

The District consists of approximately 171 gross acres, of which approximately 33 acres are expected to constitute Taxable Property. All of the Taxable Property within the District is owned by individual homeowners or Cascades Park. At buildout the Taxable Property is expected to consist of 287 dwelling units of which 176 attached condominiums have been constructed. The remaining 111 proposed dwelling units of Taxable Property are currently entitled for attached condominiums; however, Cascades Park is considering filing a site plan review application with the City to change the product mix for the property to permit the development of 111 townhomes and detached condominiums. The 287 dwelling units are commonly known as the “Legends at Cascades” project. The Taxable Property consists of Villages 1, 2, 3 and 6 of the Legends at Cascades project. The remaining Villages within the Legends at Cascades project are currently entitled for 428 attached condominiums, are owned by Cascades Park and are exempt from the levy of the Special Taxes. Cascades Park is considering filing a site plan review application with the City to change the product mix for the remaining Villages as well. Cascades Park does not currently have a timetable for the development of the property it owns within the District, and investors purchasing the Series 2010 Bonds should not assume such property will be developed in a timely manner, or at all.

KB Home acquired the Taxable Property from Cascades Park but subsequently sold Village 3 back to Cascades Park. The Taxable Property within the District consists solely of the property in Villages 1, 2, 3 and 6. However, as discussed above the Series 2010 Bonds have been sized so that estimated Assigned Special Taxes from the 176 completed and sold units are at least 110% the amount of Annual Debt Service and Assumed Administration Expenses at the time of issuance. Village 3 is currently in a mass graded condition and requires the construction of other backbone infrastructure in order to bring it to a superpad condition. The District does not anticipate levying Special Taxes on the Taxable Property within Village 3 until such time as the property constitutes “Developed Property” pursuant to the Rate and Method of Apportionment. Pursuant to the Rate and Method, the definition of “Special Tax Requirement” does not permit the District to levy Special Taxes for the acquisition of facilities; rather, it permits the District to levy Special Taxes only for the purposes set forth in such definition. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” As property in Village 3 becomes categorized as Developed Property pursuant to the Rate and Method, the Special Taxes levied on the 176 completed homes will decrease. Accordingly, investors may in the future be reliant to a certain extent on property in Village 3 which has been issued a building permit but is still undergoing construction and is owned by a future homebuilder. Pursuant to the Act, the District may not increase the levy of Special Taxes on a parcel of residential property by more than ten percent as a result of special tax delinquencies in the District. See “RISK FACTORS—Potential Dilution of Credit During Buildout of Village 3.” For a description of Cascades Park, development of property within the District see “DEVELOPER AND DEVELOPMENT PLAN” below and for additional information with respect to the District see APPENDIX B—“APPRAISAL.” Such plans are subject to change and may not be actually implemented.

### **Status of Entitlements**

The approximately 33 acres owned by individual homeowners and Cascades Park consist of final tract map 060913-01 recorded on December 29, 2005, final tract map 060913-02 recorded on April 26, 2007 and Lot Line Adjustment to Lots 1 and 2 of Tract 060913-01 recorded on August 28, 2007. The approximately 33 acres are entitled to permit the construction of 290 units of which 176 units have been constructed. As discussed above, Cascades Park is considering filing a site plan review application with the City to change the product mix for the property within Village 3.

## **The Facilities**

**Description.** As of September 15, 2010, Cascades Park represents that it has spent approximately \$13.9 million on costs of public improvements in the District, including design, engineering and grading costs associated therewith. Additionally, pursuant to an Advance and Reimbursement Agreement, Cascades Park prepaid special taxes associated with City of Los Angeles Facilities District No. 3 special tax lien on portions of the property within the District in the amount of \$3,500,000. Proceeds from the Series 2010 Bonds will be used to reimburse Cascades Park for the special tax prepayment, formation costs of the District and to acquire certain eligible public facilities constructed by Cascades Park pursuant to the Infrastructure Agreement.

**Infrastructure Agreement.** Among other things, the Infrastructure Agreement identifies the Segments of Facilities that, when satisfactorily completed, are eligible to be purchased with Bond proceeds. The Infrastructure Agreement provides that Cascades Park will sell to the District, and that the District will purchase from Cascades Park, each Segment for the Purchase Price thereof (as defined in the Infrastructure Agreement), all subject to the terms and conditions of the Infrastructure Agreement. The Infrastructure Agreement permits the District, the City and Cascades Park to make modifications in the composition and description of a Segment or in the amount of the Acquisition Cost of a Segment whenever they deem such modifications to be appropriate, provided that such Segment, as so modified, must be fully functioning and capable of being used for its intended purpose.

Under the Infrastructure Agreement, the District and the City are permitted to terminate the Infrastructure Agreement under a variety of circumstances. The Infrastructure Agreement provides that it terminates automatically if Cascades Park voluntarily files for reorganization or other relief under any Federal or state bankruptcy or insolvency law or if any such action or similar proceeding is filed against it and not terminated within 60 days after the commencement of such proceedings or if Cascades Park challenges the validity of the District, the Bonds or the levy or lien of Special Taxes (other than levies that are not in accordance with the Rate and Method of Apportionment).

In general, each of the parties to the Infrastructure Agreement may pursue any remedy at law or equity available for the breach of any provision of the Infrastructure Agreement; provided, however, that except for damages resulting from the misappropriation by the District or the City of monies owing to Cascades Park under the Infrastructure Agreement, neither the District nor the City will be liable in damages to Cascades Park.

**Improvement Fund.** The Indenture provides that the Trustee shall establish and maintain a separate fund designated the "Improvement Fund." On the Closing Date there is to be deposited in the Improvement Fund the respective amounts so indicated under the caption "ESTIMATED SOURCES AND USES OF FUNDS." The Improvement Fund is not pledged to the payment of principal of or interest on the Bonds.

## **DEVELOPER AND DEVELOPMENT PLAN**

*The following information has been provided by representatives of Cascades Park and has not been verified, and is not guaranteed as to accuracy or completeness by the District or the Underwriter. The information herein regarding ownership of the property within the District has been included because it is considered relevant to an informed evaluation of the Series 2010 Bonds. The inclusion in this Official Statement of information related to existing owners of property should not be construed to suggest that the Series 2010 Bonds, or the Special Taxes that will be used to pay the Series 2010 Bonds, are recourse obligations of the property owners. A property owner may sell or otherwise dispose of land within the District or a development or any interest therein at any time without a personal obligation to pay Special Taxes.*

*No assurance can be given that the proposed development within the District will occur as described below. No assurances can be given that development of the vacant land within the District will occur, or that it will occur in a timely manner or in the configuration or intensity described herein, or that Cascades Park will obtain or retain ownership of any of the land within the District. The Series 2010 Bonds and the Special*

*Taxes are not personal obligations of any landowner and, in the event that a landowner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to any other assets of any landowner. As a result, other than as provided herein, no financial statements or financial information is, or will be, provided about Cascades Park or other landowners. The Series 2010 Bonds are secured solely by the Net Special Tax Revenues and other amounts pledged under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS" and "RISK FACTORS."*

### **Cascades Park**

Cascades Park Properties, LLC, a California limited liability company ("Cascades Park") is developing the infrastructure within the District. The managing member of Cascades Park is Clark Associates, LLC, a California limited liability company, whose managing member is Thomas Clark.

Mr. Clark has a Bachelor of Arts degree in Economics from UCLA. Mr. Clark has over 35 years of real estate experience. During this time through various entities (Royal-Clark Development Company, Gentry-Clark, Clark Associates, LLC., Gentry/Royal-Clark, Sand Canyon Plaza, LLC, Bee Canyon, LLC, Cascades Park Properties, LLC), Mr. Clark has acquired and has been engaged in various projects in California, Hawaii, and Guam.

Mark Armbruster is a principal of Cascades Park and is one of Southern California's leading land use attorneys, having successfully worked on numerous major real estate development projects in the region since 1978. He received a B.S. degree in political science from UCLA in 1971 and a J.D. from Loyola Law School in 1977.

In 1970-1971, Mr. Armbruster ran the successful inaugural campaign of former Los Angeles City Councilman Joel Wachs. He then served as Councilman Wachs' first Chief Deputy from 1971-1972. Subsequently, he ran the Congressional District office of former Congressman Alphonzo Bell. From 1974-1977, Mr. Armbruster worked for two real estate development companies, including Kaufman and Broad, while attending Loyola Law School. In addition to expertise in the land use area, Mr. Armbruster brings years of experience and credibility with elected officials, their staffs and departmental staffs within the unincorporated County of Los Angeles and City of Los Angeles as well as numerous other municipalities in the Los Angeles metropolitan area. He has successfully represented clients in many major commercial, industrial, retail and residential projects.

Cascades Park initially owned all of the property within the District. KB Home Greater Los Angeles Inc. ("KB Home") acquired 33 acres of land in the District from Cascades Park consisting of Villages 1, 2, 3 and 6. KB Home subsequently sold Village 3 back to Cascades Park in November, 2009. The remaining Villages within the Legends at Cascades project are currently entitled for 428 attached multifamily dwelling units, are currently owned by Cascades Park and are exempt from the levy of Special Taxes.

Several mechanics' liens and a lis pendens have been filed by contractors on the property in Village 3. Cascades Park represents that it is currently contesting such liens. The property within Village 3 also secures in part a construction and acquisition loan to Cascades Park from Comerica Bank in the outstanding amount of \$2,300,000 as of September 15, 2010. The property in Village 3, together with other land owned by Cascades Park, currently secures a construction and development loan to Cascades Park from Comerica Bank in the outstanding amount of \$51,395,089 as of August 3, 2010. Both of the loans are currently in default. Cascades Park represents that it is currently exploring various strategies with Comerica Bank to resolve the default. There can be no guaranty or assurance of any kind that any of these strategies will be agreed upon or implemented and if implemented, will involve a structure that causes Cascades Park to remain as the owner of Village 3. Investors purchasing the Bonds should not assume that Village 3 will be developed in a timely manner or at all.

Additionally, Cascades Park has informed the District that it and Thomas F. Clark, an individual ("Clark") are defendants in Case No. PC048381 (the "Complaint") in the Los Angeles Superior Court filed by



2.09 Cascades Acres L.P. (“Plaintiff”). The Complaint alleges that in 2007, Plaintiff and Cascades Park Properties, LLC entered into an “Amended Option Agreement” whereby Plaintiff transferred its interest in 2.09 acres of property located within the boundaries of District in exchange for the right to acquire thirty tentatively mapped residential lots identified as Lot 3 on Revised Tentative Tract Map 060913 (also located in the District but not subject to the Special Tax). The 2.09 acres were acquired by KB Home, which subsequently developed the 2.09 acres as part of the 176 completed attached residential condominiums within the District. According to the Complaint, Plaintiff has the right to require Cascades Park to purchase Plaintiff’s rights to the thirty tentatively mapped residential lots for the sum of \$2,279,045, increased at the rate of 25% per annum from January 1, 2007. The Plaintiff does not seek specific performance of the alleged obligation of Cascades Park to convey the thirty tentatively mapped residential lots. Rather, the Complaint seeks specific performance of the obligation of Cascades Park to pay Plaintiff for its rights to purchase these thirty tentatively mapped residential lots. The thirty tentatively mapped residential lots are located within the District but are not subject to the Special Tax and do not make up any part of the area developed by KB Home with the 176 completed attached residential condominiums or the 9.04 acres of developable property located within Village 3 of the District. The Complaint further contends that Clark guaranteed Cascades Park’s performance under an option agreement and may satisfy his guaranty obligation by either paying Plaintiff \$1,300,000 plus 8% annual compounded interest from April 1, 2004, or surrender and transfer to Plaintiff Clark’s membership interest in two limited liability companies. Cascades Park and Clark are contesting the matter. According to Cascades Park, the parties to the lawsuit have agreed to enter into an agreement tolling the Complaint and providing for a ultimate dismissal of the Complaint upon payment by Cascades Park of \$250,000 from reimbursements it will receive from proceeds of the Series 2010 Bonds.

### **Property Ownership and The Development Plan**

As of September 15, 2010, 176 attached condominium units have completed and are owned by individual homeowners. Cascades Park owns all of property within Village 3, which is in a mass graded condition. As discussed above, Cascades Park is considering filing a site plan review application with the City to change the product mix for the property to develop Village 3 with town homes and detached condominiums. Cascades Park does not currently have a firm timeline for developing Village 3 or its other remaining property in the District. Cascades Park is not a residential homebuilder and does not plan on developing its property beyond a superpad condition. Investors should not assume that such property will be developed in a timely manner or at all.

In addition to the completed 176 units, development in the District includes a completed recreation center, which includes a pool, spa, clubhouse and other recreational facilities and a public park. The property within the District formerly had and is currently entitled for a privately owned 18-hole public golf course. Cascades Park is currently unsure of its plans relating to the development and redesign of the golf course; however, the existing clubhouse for the golf course has been maintained. The District also is planned to have equestrian trails and related staging area. The equestrian trails are partially built and the staging area has been completed.

The 176 completed units consist of two product types. The first product line is called “Brighton” and consists of six-plexes and tri-plexes ranging from 1,094 to 2,024 square feet. The second product line is called “Summerlin” and consists of four-plexes and two-plexes, ranging from 1,678 to 2,646 square feet. All units have two car garages. Cascades Park currently has no immediate plans to develop the remaining 539 entitled units in the District and is currently considering filing a site plan review application with the City to change the product mix and layout of such property. Investors considering purchasing the Bonds should assume that such property will not be developed in a timely manner.

The discussion set forth above merely reflects the completed development within the District as of September 15, 2010 and Cascades Park’s present plans for the development of the property it owns in the District. In formulating the plan described above, Cascades Park has adapted to changing conditions within the marketplace. Although said plan reflects Cascades Park’s current expectations with respect to the property,

Cascades Park intends to continue to modify and adjust its plan, as necessary, to both maximize the overall development mix and use of the property and to enhance its efforts to successfully develop the property.

## **RISK FACTORS**

### **Bonds Are Limited Obligations**

Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Indenture), the City, the State or any political subdivision thereof is pledged to the payment of the Series 2010 Bonds. The Series 2010 Bonds are limited obligations of the District; and, except as provided in the Indenture, they are payable solely from Net Special Tax Revenues. Net Special Tax Revenues could be insufficient to pay debt service on the Series 2010 Bonds as a result of delinquencies in the payment of Special Taxes or the insufficiency of proceeds derived from the sale of land within the District following a delinquency in the payment of the applicable Special Tax. The District has no obligation to pay debt service on the Series 2010 Bonds in the event of insufficient Net Special Tax Revenues, except to the extent that money is available for such purpose in the Reserve Fund. The District's only obligation with respect to delinquent Special Taxes is to pursue judicial foreclosure proceedings under the circumstances described in the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Covenant for Superior Court Foreclosure."

### **Potential Dilution of Credit During Buildout of Village 3**

According to the methodology set forth in the Rate and Method, Special Taxes on the 176 completed and sold homes will be reduced in future years as Taxable Property in Village 3 becomes categorized as Developed Property. Such reductions will continue until such time as Additional Bonds are issued in accordance with the provisions of the Indenture. Future application of the Rate and Method in such circumstances could result in Bondowners relying on the payment of Special Taxes on property which has been issued a building permit, but is not a Certificated Parcel and is owned by a future developer of Village 3. Pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the Special Tax levy up to the Assigned Special Tax. Depending on the number of permits issued and the timing of development, Bondowners could potentially be relying on future developers to make Special Tax payments supporting a significant portion of the Series 2010 Bonds. Such a concentration of ownership could present a risk to Bondowners.

As discussed above under the caption "DEVELOPER AND DEVELOPMENT PLAN," Cascades Park is not a homebuilder and has no intention of building homes itself in Village 3. Cascades Park makes no assurances as to its ability to complete the development and sale of property within Village 3 to a merchant builder. The Appraiser has assigned a \$0 value to the property within Village 3. See Appendix B—"APPRAISAL."

### **Hazardous Substances; Groundwater and Soil Contamination**

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super Fund 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 in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a

parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition. The Appraisal does not take into account the possible liability of the owner (or operator) for the remedy of any hazardous substance affecting any such parcel.

It is possible that property in the District may become liable for hazardous substances in the future as a result of the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or the existence, currently, on the property of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could have the effect of reducing the value of the applicable property.

### **Geologic, Topographic and Climatic Considerations**

The market value of the property within the District may be adversely affected in the future by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements to such land and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes, topographic conditions such as earth movements, landslides and floods and climatic conditions such as droughts. One or more of such conditions may occur and may result in damage to improvements of varying seriousness, the damage may entail significant repair or replacement costs and 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 land within the District may be reduced.

A geologic concern that affects property throughout southern California is earthquakes. The Alquist-Priolo Earthquake Fault Zoning Act of California was enacted in 1972 in order to mitigate the hazard of surface fault rupture along active faults by providing the information necessary to avoid locating structures for human occupancy across traces of active faults. According to the California Division of Mines and Geology, several faults run through the District. Portions of the District are also mapped as landslide hazard zones.

### **Zoning and Land Use Decisions**

Land development is 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 to be required in connection therewith, construction activity, land use, zoning, school requirements, health considerations, and numerous other matters. Failure to obtain any such approval or to satisfy any such governmental requirement in a timely manner could adversely affect the successful development of the land within Village 3 of the District. As discussed above, Cascades Park is considering filing a site plan review application to change the product mix and layout of the remaining undeveloped property in the District. Cascades Park has no timeline for pursuing such application.

### **Parity Taxes and Assessments**

The ability or willingness of a property owner in the District to pay the Special Tax applicable to such property could be affected by the existence of other taxes and assessments imposed upon such property. The Special Tax and any penalties thereon will constitute a lien against each parcel of Taxable Property on which it will be annually imposed until it is paid. Such lien is on a parity with the lien securing all other special taxes and special assessments levied by other local governmental agencies and is co-equal to and independent of the lien securing general property taxes, when such other taxes and assessments are levied upon the same property. The Special Tax has priority over all existing and future private liens imposed on the property, with the

possible exception of liens securing interests of the Federal Deposit Insurance Corporation. See “RISK FACTORS—FDIC/Federal Government Interests in Properties.”

Other public agencies whose boundaries overlap those of the District could, with or in some circumstances without the consent of the owners of the land in the District, impose additional taxes or assessments on the property in the District in order to finance public improvements to be located inside or outside of the District. The City has no control over the ability of other local governmental entities to issue indebtedness secured by taxes or assessments payable from all or a portion of the Taxable Property in the District. In addition, the City is not prohibited from establishing assessment districts, other community facilities districts or other similar districts which might impose assessments or taxes on property in the District. In the event any additional improvements or fees are financed pursuant to the establishment of an assessment district, community facilities district or other similar district, any taxes or assessments levied to finance such improvements will have a lien on a parity with the lien of the Special Tax. The imposition of additional liens on a parity with the Special Tax could reduce the ability or willingness of the property owners to pay the Special Tax and could increase the possibility that, in the event of a delinquency in the payment of the Special Tax, foreclosure proceeds will not be adequate to pay such delinquency. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Direct and Overlapping Debt.”

### **Levy and Collection of Special Taxes**

The principal source of money with which to pay debt service on the Series 2010 Bonds is the proceeds derived from the annual levy and collection of the Special Tax applicable to the Taxable Property in the District. The amount of the Special Tax that can be levied is limited to the maximum tax rates authorized pursuant to the Rate and Method of Apportionment. Additionally, pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any Assessor’s parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor’s parcel within the District by more than ten percent above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to the Assigned Special Tax in all years. The levies cannot be made at higher rates even if the failure to do so would result in insufficient Net Special Tax Revenues to pay the principal of and interest on the Series 2010 Bonds as the same become due and payable.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of a particular parcel and the amount of the levy of the Special Tax against such parcel. Thus, there will rarely, if ever, be a uniform relationship between the value of a parcel and its proportionate share of the debt service on the Series 2010 Bonds. The Special Tax levied in any particular Fiscal Year on a parcel is based upon the revenue needs of the District and the application of the Rate and Method of Apportionment. The application of the Rate and Method of Apportionment will, in turn, be dependent upon certain development factors with respect to each parcel by comparison with similar development factors with respect to the other parcels in the District. Thus, in addition to annual variations in the revenue needs of the District that must be met from the Special Tax, the following are some of the factors which might cause the levy of the Special Tax on any particular parcel to vary from the Special Tax that might otherwise be expected:

Reduction in the number of parcels of Taxable Property, for reasons such as acquisition of such parcels by a governmental entity and failure of the governmental entity 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; and

Failure of the owners of certain parcels of Taxable Property to pay the applicable Special Tax and delays in the collection of or inability to collect such 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.

The timely payment of the principal of and interest on the Series 2010 Bonds is ultimately dependent upon the timely payment of all Special Taxes. Any money on deposit in the Reserve Fund can be used to make such payment in the event of delinquencies, but the replenishment of the Reserve Fund will be dependent on the recovery of such delinquencies. The Indenture provides that the Special Tax is to be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable (or in such other manner as the City Council shall determine, including direct billing of the affected property owners) and, except as provided in the special covenant for foreclosure described under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Covenant for Superior Court Foreclosure” and in the Act, is to be subject to the same proportionate penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* taxes on real property.

Pursuant to the Act, in the event of any delinquency in the payment of the Special Tax, the District may order the institution of a Superior Court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory. However, the District has covenanted in the Indenture that it will institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installments of the Special Tax under certain circumstances. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Covenant for Superior Court Foreclosure.” In the event that foreclosure proceedings are commenced, such foreclosure proceedings could be stayed by the commencement of bankruptcy proceedings by or against the owner of the property being foreclosed. In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Series 2010 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the District of the proceeds of sale if the Reserve Fund is depleted.

The District may be unable to make full or timely payment of debt service on the Series 2010 Bonds if property owners in the District fail to pay installments of the Special Tax when due, if the Reserve Fund is depleted, or if the District is unable to sell foreclosed parcels for amounts sufficient to cover the delinquent installments of the Special Tax.

Subject to the provisions of Sections 53344.1 and 53356.8 of the Act, the Indenture permits the owners of property within the District to tender a Bond to the District in full or partial payment of any installment of the Special Tax, or the interest or penalties thereon, which may be due or delinquent but for which a bill has been received (such Bond to be taken at par with credit given for the accrued interest shown thereby computed to the date of such tender), provided that such tender would not cause a default in scheduled debt service with respect to the untendered Outstanding Bonds, as determined by an Independent Consultant. Assuming the accuracy of any such determination by the Independent Consultant, such a tender would not result, in and of itself, in a payment default with respect to the Bonds. However, such a tender would produce less cash than was anticipated to be collected from the levy of the Special Tax and could require the withdrawal of funds from the Reserve Fund in order to avoid such a default.

### **Bankruptcy and Legal Delays**

The prosecution of actions to foreclose the lien of delinquent Special Taxes could be delayed due to crowded local court calendars, delays in the legal process and the laws of the State relating to judicial foreclosure. Moreover, bankruptcy, insolvency and other laws generally affecting creditors rights could adversely impact the interests of Owners of the Series 2010 Bonds in at least two ways.

First, the payment of the Special Tax and the ability of the District to foreclose the lien of a delinquent special Tax may be limited by such laws. Although bankruptcy proceedings would not cause the Special Tax to become extinguished, the bankruptcy of an owner of property within the District could result in a delay in prosecuting superior court foreclosure proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delays could increase the likelihood of a delay or default in payment of the principal of and interest on the Series 2010 Bonds and the possibility of delinquent Special Tax installments not being paid in full. Moreover, if a bankruptcy court determines that the value of

the property within the District owned by such property owner is less than the lien of the Special Tax applicable to such property, the amount of the lien could be reduced by the amount of the difference, and the amount of the delinquent Special Tax that exceeds the reduced lien could be treated as an unsecured claim by the bankruptcy court.

The various legal opinions to be delivered concurrently with the delivery of the Series 2010 Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by the application of bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

### **Exempt Properties**

The Rate and Method of Apportionment provides that certain properties are exempt from the Special Tax. In addition, the Act provides that properties or entities of the federal government, the State, and local governmental agencies are exempt from the Special Tax, except that if such property is acquired by the public entity through a negotiated transaction or by gift or devise and is not otherwise exempt from the Special Tax, it will continue to be subject to the Special Tax. Furthermore, 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 such property shall be treated as if it were a special annual assessment. The constitutionality and operation of these provisions of the Act have not been tested; and particularly insofar as these provisions require payment of the Special Tax by a federal entity acquiring property in the District, they may be unconstitutional.

If for any reason a parcel in the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, then subject to the limitation of the maximum authorized rates contained in the Rate and Method of Apportionment, the Special Tax burden applicable to such parcel will be reallocated to the remaining Taxable Parcels in the District. This would result in the owners of such remaining Taxable Parcels paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax. Moreover, if a substantial portion of land in the District becomes exempt from the Special Tax because of public ownership or otherwise, the maximum annual Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Series 2010 Bonds when due and a default could occur with respect to the payment of such principal and interest.

The Act further provides that no other properties or entities are exempt from a 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.

### **FDIC/Federal Government Interests In Properties**

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the Federal Deposit Insurance Corporation (the "FDIC"), or other federal government entities such as Fannie Mae or Freddie Mac, has or obtains an interest.

In the case of FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the District may be constrained. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the

Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The Community Facilities District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”), in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see “— Exempt Properties.”

The District’s remedies may also be limited in the case of delinquent Special Taxes with respect to parcels in which other federal agencies (such as the Internal Revenue Service and the Drug Enforcement Administration) have or obtain an interest.

### **Payment of the Special Taxes is Not a Personal Obligation of the Owners**

An owner of a Taxable Property is not personally obligated to pay the Special Tax applicable to such parcel. If such an owner elects not to pay the taxes applicable to the parcel, the District will have no recourse against the owner. The Special Tax obligation can be enforced only through a tax sale or foreclosure proceedings. Thus, even if the owner of taxable property within the District has the financial resources with which to pay the taxes applicable to such property, there is no assurance that such taxes will be paid.



## **Disclosures to Future Purchasers**

The District has recorded a Notice of Special Tax Lien in the office of the County Recorder. 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, a home or a commercial or industrial facility in the 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 community facilities district 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 make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute as long as notices in such form are made available by the entity that created the community facilities district. Failure by an owner of property within the District 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. Conversely, especially because other properties in the area are not subject to any community facilities district special taxes, potential purchasers of property within the District who are made aware of the Special Tax may purchase elsewhere or may discount the price they were otherwise prepared to pay for property within the District in light of the Special Tax.

## **Limited Remedies – No Acceleration**

In the event of a default in the payment of debt service on the Series 2010 Bonds, the remedies available to Owners will be limited in several respects. For example, as noted above under the caption “Bankruptcy and Legal Delays,” the pendency of bankruptcy proceedings could prevent the prosecution of foreclosure actions and, as noted under the caption “FDIC/Federal Government Interests in Properties,” it may be that the interests of federal agencies and federally-sponsored entities in parcels that are subject to the Special Tax will be protected in such a manner as to limit recovery of delinquent Special Taxes. Moreover, the Indenture does not contain a provision allowing for the acceleration of the Series 2010 Bonds in the event of a payment default or other default under the terms of the Series 2010 Bonds or the Indenture.

## **Proceedings to Reduce or Terminate the Special Tax**

Pursuant to the Act, proceedings could be initiated to reduce or terminate the levy of the Special Tax. However, the Act prohibits the City Council from adopting resolutions to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the City Council determines that the reduction or termination of the Special Tax “would not interfere with the timely retirement” of any outstanding indebtedness secured by the Special Tax.

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Among other things, Proposition 218 added Article XIIC to the State Constitution. Section 3 of Article XIIC, which removes certain limitations on the initiative power, 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.” As noted above, the Act provides for a procedure to alter the rate and method of apportionment of an existing special tax. However, as also noted above, the Act prohibits the legislative body from adopting a resolution to reduce the rate of a special tax if the proceeds of that tax are being utilized to retire any debt incurred pursuant to the Act unless such legislative body determines that the reduction of that tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that the exercise by the voters of the initiative power referred to in Article XIIC to reduce the Special Tax is subject to the same restrictions as are applicable to the City Council pursuant to the Act. Accordingly, it is likely, but by no means certain, that the voters may not reduce the Special Tax through the initiative process if such reduction would interfere with the timely retirement of the Series 2010 Bonds.

It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Series 2010 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. It may also be possible for voters or the City Council to change the Rate and Method of Apportionment in a manner that would alter the amount of Special Taxes for which various types of properties are responsible (for example, by shifting the order in which various types of property are taxed). 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 Series 2010 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses.

The interpretation and application of Proposition 218 with respect to a number of the matters discussed above will ultimately be determined by the courts, and it is not possible at this time to predict the outcome of such determination or the timeliness of any remedy afforded by the courts.

### **Loss of Tax Exemption**

As discussed under the heading “CONCLUDING INFORMATION—Tax Matters,” interest on the Series 2010 Bonds could cease to be excluded from gross income for purposes of federal income taxation, retroactive to the date the Series 2010 Bonds were issued, as a result of future acts or omissions of the District. In addition, it is possible that future changes in applicable federal tax laws could cause interest on the Series 2010 Bonds to be included in gross income for federal income taxation or could otherwise reduce the equivalent taxable yield of such interest and thereby reduce the value of the Series 2010 Bonds.

### **No Ratings – Limited Secondary Market**

The District has not applied to have the Series 2010 Bonds rated by any nationally recognized bond rating company, and it does not expect to do so in the future.

There can be no guarantee that there will be a secondary market for the Series 2010 Bonds or, if a secondary market exists, that such Series 2010 Bonds can be sold for any particular price. Although the Community Facilities District has committed to provide certain financial and operating information, there can be no assurance that such information will be available to Series 2010 Bond owners 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 Series 2010 Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **CONCLUDING INFORMATION**

### **Legal Opinions**

The validity of the Series 2010 Bonds and certain other legal matters are subject to the approving opinions of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California (“Bond Counsel”). A complete copy of the proposed form of opinions of Bond Counsel is set forth in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City and the District by the City Attorney, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and for Cascades Park by Allen Matkins Leek Gamble & Mallory, LLP, Irvine, California and by its in-house Assistant General Counsel.

## **Tax Matters**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2010 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2010 Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2010 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 Series 2010 Bonds is the first price at which a substantial amount of such maturity of the Series 2010 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 Series 2010 Bonds accrues daily over the term to maturity of such Series 2010 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 Series 2010 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010 Bonds. Beneficial Owners of the Series 2010 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2010 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010 Bonds is sold to the public.

Series 2010 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure their interest on the Series 2010 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2010 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2010 Bonds. Prospective purchasers of the Series 2010 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

Bond Counsel's engagement with respect to the Series 2010 Bonds ends with the issuance of the Series 2010 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series 2010 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

### **Financial Interests**

The fees and expenses of the Special Tax Consultant and Appraiser are payable by the District from funds proceeds of the Special Taxes and are not contingent upon the issuance of the Series 2010 Bonds. The fees and expenses of the Financial Advisor to the District are payable by the District in part from proceeds of the Special Taxes and in part from proceeds derived from the sale of the Series 2010 Bonds. The compensation payable to Bond Counsel and Underwriter's Counsel is contingent upon the issuance of the Series 2010 Bonds. Orrick, Herrington & Sutcliffe LLP represents the Underwriter from time to time in matters unrelated to the Series 2010 Bonds.

### **Litigation**

At the time of delivery of and payment for the Series 2010 Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or regulatory agency, public board or body pending or, to the knowledge of the District, threatened against the City or the District affecting their existence, or the titles of their respective officers, or seeking to restrain or to enjoin the issuance, sale or delivery of the Series 2010 Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of the Special Tax to pay the principal of and interest on the

Series 2010 Bonds, or in any way contesting or affecting the validity or enforceability of the Series 2010 Bonds, the Indenture, or any action of the City or the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, and that, to the knowledge of the District, there is no basis therefor.

### **No Rating**

The District has not made and does not contemplate making an application to any rating agency for the assignment of a rating to the Series 2010 Bonds.

### **Continuing Disclosure**

The District has agreed in the District's Continuing Disclosure Agreement (see Appendix E), for the benefit of the Owners and beneficial owners of the Series 2010 Bonds, to provide certain financial information and operating data (the "Annual Report") and to provide notices of the occurrence of certain enumerated events (the "Listed Events"). The Annual Reports and notices of Listed Events are required to be filed with the Municipal Securities Rulemaking Board. The specific nature of the information to be included in the Annual Reports and the notices of Listed Events is set forth in Appendix E. These obligations have been undertaken by the District in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) the ("Rule").

Notwithstanding any provision of the Indenture, failure of the District to comply with the applicable Continuing Disclosure Agreement will not be considered an Event of Default under the Indenture. However, any Owner of the Series 2010 Bonds 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 with respect to the Continuing Disclosure Agreement.

The District has not previously undertaken to provide Annual Reports or notices of material events and, within the last five years, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

### **Underwriting**

The Series 2010 Bonds were purchased through negotiation by Stone & Youngberg LLC (the "Underwriter") at a price of \$5,839,322.16, which is equal to the principal amount of Series 2010 Bonds less an original issue discount of \$27,830.15 and less an Underwriter's discount of \$132,847.69. The Underwriter may change the initial public offering prices set forth on the inside cover page hereof and may offer and sell the Series 2010 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof.

**Miscellaneous**

All of the preceding summaries of agreements and other documents are made subject to the provisions of such agreements and documents and do not purport to be complete statements of any or all of the provisions thereof. Reference is hereby made to such agreements and documents on file with the City Administrative Officer for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Series 2010 Bonds.

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

The execution and delivery of this Official Statement by the District have been duly authorized by the City Council of the City of Los Angeles on behalf of the District.

CITY OF LOS ANGELES COMMUNITY FACILITIES  
DISTRICT NO. 8 (LEGENDS AT CASCADES)

By: /s/ Raymond P. Ciranna  
Assistant City Administrative Officer

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**APPENDIX A**

**RATE AND METHOD OF APPORTIONMENT FOR  
CITY OF LOS ANGELES  
COMMUNITY FACILITIES DISTRICT NO. 8  
(LEGENDS AT CASCADES)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) ("CFD No. 8") and collected each Fiscal Year commencing in Fiscal Year 2007-08, in an amount determined through the application of the appropriate Special Tax for "Developed Property," "Taxable Property Owner Association Property," "Taxable Public Property," "Taxable Religious Property," and "Undeveloped Property" as described below. All of the real property in CFD No. 8 (other than the Exempt Area), unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

**A. DEFINITIONS**

The terms hereinafter set forth have the following meanings:

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

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

**"Administrative Expenses"** means, for any Fiscal Year, any actual or reasonably estimated costs directly related to the administration of CFD No. 8 in such Fiscal Year, including (in no particular priority order):

- the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or a designee thereof or both);
- the costs of collecting the Special Taxes (whether by the County or otherwise);
- the costs of remitting the Special Taxes to the Trustee;
- the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Trust Agreement payable by CFD No. 8 under the Trust Agreement;
- the costs of the City or CFD No. 8 of complying with arbitrage rebate requirements;
- the costs of the City or CFD No. 8 of complying with City, CFD No. 8 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act;
- the costs of the City or CFD No. 8 associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes;
- the costs of the City or CFD No. 8 related to an appeal of the Special Tax;
- the costs of the City or CFD No. 8 associated with the release of funds from an escrow account (to the extent not paid from other sources);

- the costs of calculating the prepayment of Special Taxes (to the extent not paid or provided for pursuant to Section H), and recordings related to such prepayment and satisfaction of Special Taxes;
- reasonable attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes; and
- an allocable share of the salaries of the City staff directly related to the foregoing.

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

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

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

**"Backup Special Tax"** means the Special Tax applicable to each Assessor's Parcel of Developed Property, as determined in accordance with Section C.1.e. below.

**"Bonds"** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 8 under the Act.

**"CFD Administrator"** means the CAO or designee thereof responsible for the overall administration of CFD No. 8.

**"CFD No. 8"** means City of Los Angeles Community Facilities District No. 8 (Legends at Cascades).

**"City"** means the City of Los Angeles.

**"City Administrative Officer"** or **"CAO"** means the City Administrative Officer of the City of Los Angeles, or his or her designee, or a City official succeeding to the duties of the City Administrative Officer.

**"Condominium"** means a unit, whether attached or detached, meeting the statutory definition of a condominium contained in the California Civil Code Section 1351.

**"Council"** means the Council of the City of Los Angeles, acting as the legislative body of CFD No. 8.

**"County"** means the County of Los Angeles.

**"Developed Property"** means, for each Fiscal Year, all Taxable Property, exclusive of Other Taxable Property, for which a building permit for new construction was issued after January 1, 2006 but prior to January 1 of the prior Fiscal Year.

**"Exempt Area"** means the geographic area identified as Exempt Area on the Exempt Area Diagram included as Attachment A to this Rate and Method of Apportionment.

**"Fiscal Year"** means the period starting July 1 and ending on the following June 30. **"Land Use Class"** means any of the classes listed in Table 1.

**“Legal Lot”** means Parcel 1 of Lot Line Adjustment No. 2007-1009, Parcel 2 of Lot Line Adjustment No. 2007-1009, Lot 1 of Tract No. 60913-2, or any other lot for which building permits for residential units may be issued, as applicable.

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

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

**“Other Taxable Property”** means Taxable Property Owners Association Property, Taxable Religious Property, and Taxable Public Property.

**“Outstanding Bonds”** means all Bonds which are deemed to be outstanding under the Trust Agreement.

**“Property Owner Association Property”** means any property within the boundaries of CFD No. 8 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association.

**“Proportionately”** means (a) for Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property; (b) for Undeveloped Property, that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property; (c) for Taxable Property Owner Association Property and Taxable Religious Property, that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Taxable Property Owner Association Property and Taxable Religious Property; and (d) for Taxable Public Property, that ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Taxable Public Property.

**“Public Property”** means any property within the boundaries of CFD No. 8 that is owned by a public agency on the date of formation of CFD No. 8 or property within the boundaries of CFD No. 8 that is transferred to a public agency on or after the date of formation of CFD No. 8 and is used for rights-of-way or any other public purpose and is owned by or dedicated to the federal government, the State of California, the County, the City, or any other public agency; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use.

**“Religious Property”** means all property within the boundaries of CFD No. 8 which is used primarily as a place of worship and is exempt from *ad valorem* property taxes because it is owned by a religious organization. Religious Property does not include any Assessor’s Parcels used primarily for religious schools, day care centers, or congregate care facilities.

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

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

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

**“Special Tax Requirement”** means, for any Fiscal Year, that amount required, after taking into account amounts held in the funds and accounts under the Trust Agreement which are intended to be used to pay debt service on Outstanding Bonds in the calendar year beginning in such Fiscal Year, to: (i) pay regularly scheduled debt service on all Outstanding Bonds due in the calendar year beginning in said Fiscal Year; (ii) pay periodic costs on the Bonds including but not limited to, credit enhancement and rebate payments on the Bonds due in the calendar year beginning in said Fiscal Year; (iii) pay Administrative Expenses; (iv) accumulate Developed Property Special Taxes to pay for debt service on Bonds in subsequent Fiscal Years; (v) pay any amounts required to establish or replenish any reserve funds for Outstanding Bonds; and (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year.

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

**“Taxable Property”** means, for each Fiscal Year, all of the Assessor’s Parcels within the boundaries of CFD No. 8 which are not within the Exempt Area and that are not exempt from the Special Tax for such Fiscal Year, pursuant to law or Section E below.

**“Taxable Property Owner Association Property”** means, for each Fiscal Year, all Assessor’s Parcels of Property Owner Association Property that are not exempt from the Special Tax for such Fiscal Year, pursuant to Section E below.

**“Taxable Public Property”** means, for each Fiscal Year, all Assessor’s Parcels of Public Property that are not exempt from the Special Tax for such Fiscal Year, pursuant to Section E below.

**“Taxable Religious Property”** means, for each Fiscal Year, all Assessor’s Parcels of Religious Property that are not exempt from the Special Tax for such Fiscal Year, pursuant to Section E below.

**“Trust Agreement”** means the trust agreement, indenture, fiscal agent agreement, or similar document, regardless of title, pursuant to which Bonds are issued and which establishes the terms and conditions for the payment of such Bonds, as modified, amended and/or supplemented from time to time in accordance with its terms.

**“Trustee”** means the trustee, fiscal agent, or paying agent under the Trust Agreement.

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

**B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all property within CFD No. 8 shall be classified as Taxable Property, Public Property, Property Owner Association Property, or Religious Property. All Taxable Property within CFD No. 8 shall then be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Developed Property shall be further classified as Residential Property and Non-Residential Property. Residential Property shall be assigned to Land Use Classes 1 through 7, and Non-Residential Property shall be assigned to Land Use Class 8.

The Assigned Special Tax for Residential Property shall be based on the Residential Floor Area of the dwelling unit(s) located on the Assessor's Parcel, as specified in Table 1 below. The Assigned Special Tax for Non-Residential Property shall be based on the Acreage of the Assessor's Parcel.

**C. MAXIMUM SPECIAL TAX RATE**

**1. Developed Property**

**a. Maximum Special Tax**

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

**b. Assigned Special Tax**

The Assigned Special Tax for each Land Use Class for Fiscal Year 2007-08 is shown below in Table 1.

**TABLE 1**

**Assigned Special Taxes for Developed Property  
For Fiscal Year 2007-08  
Community Facilities District No. 8**

<i>Land Use Class</i>	<i>Description</i>	<i>Residential Floor Area</i>	<i>Fiscal Year 2007-2008 Assigned Special Tax</i>
1	Residential Property	≥ 2,500 SF	2,443 per unit
2	Residential Property	2,200 – 2,499 SF	2,386 per unit
3	Residential Property	1,900 – 2,199 SF	2,261 per unit
4	Residential Property	1,600 – 1,899 SF	2,104 per unit
5	Residential Property	1,300 – 1,599 SF	2,052 per unit
6	Residential Property	1,100 – 1,299 SF	1,792 per unit
7	Residential Property	< 1,100 SF	1,583 per unit
8	Non-Residential Property	NA	18,092 per Acre

**c. Increase in the Assigned Special Tax**

The Assigned Special Taxes in Table 1 shall be applicable for Fiscal Year 2007-08, and shall increase thereafter, commencing on July 1, 2008 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Assigned Special Tax for the previous Fiscal Year.

**d. Multiple Land Use Classes**

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

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

e. Backup Special Tax

The Fiscal Year 2007-08 Backup Special Tax per Acre for Developed Property within each Legal Lot shall equal the amount indicated in Table 2 below.

**TABLE 2**

**Backup Special Tax  
For Fiscal Year 2007-08**

<i>Legal Lot</i>	<i>FY 2007-08 Backup Special Tax</i>
Parcel 1 of Lot Line Adjustment No. 2007-1009	\$14,514 per Acre
Parcel 2 of Lot Line Adjustment No. 2007-1009	\$23,349 per Acre
Lot 1 of Tract No. 60913-2	\$18,348 per Acre
Any Other Lot	\$18,092 per Acre

On each July 1, commencing July 1, 2008, the Backup Tax for each Legal Lot shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

For the purpose of calculating the Backup Special Tax, the land area applicable to a Condominium dwelling unit shall be computed from the Acreage of the Legal Lot on which the Condominium dwelling unit is located, with the Acreage for such Legal Lot allocated equally among all of the dwelling units located or to be located on such lot. Once the Backup Special Tax is calculated for an Assessor's Parcel of Residential Property, it shall not be increased except for the annual increases described in the paragraph above.

**2. Undeveloped Property and Other Taxable Property**

a. Maximum Special Tax

The Maximum Special Tax for Undeveloped Property and Other Taxable Property shall be \$18,202 per Acre for Fiscal Year 2007-08, and shall increase thereafter, commencing on July 1, 2008 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Special Tax for the previous Fiscal Year.

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

Commencing with Fiscal Year 2007-08 and for each following Fiscal Year, the Council shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

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

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

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

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 8.

#### **E. EXEMPTIONS**

No Special Tax shall be levied on property within the Exempt Area.

Property Owner Association Property, Public Property, and Religious Property that is not within the Exempt Area shall be considered Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property and shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth or fifth step in Section D above, at up to 100% of the applicable Maximum Special Tax for Other Taxable Property.

#### **F. REVIEW/APPEAL COMMITTEE**

Any landowner, any non-exempt lessee or holder of a possessory interest in property otherwise exempt because it is exempt property of a public agency, and any lessee on a triple net lease may file a written appeal of the Special Tax on its property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall make a recommendation to the Council to eliminate or reduce the Special Tax on the appellant's property and/or to provide a refund to appellant. The approval of the Council or its designee must be obtained prior to any such elimination or reduction. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the Council by filing a written notice of appeal with the City Clerk, provided that appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination. The City Clerk shall schedule the appeal to be heard before the appropriate Council committee and/or the Council.



Interpretations may be made by the Council by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Rate and Method of Apportionment.

**G. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 8 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

**H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

**"CFD Public Facilities"** means either \$8.2 million in 2007 dollars, which shall increase by the Construction Inflation Index on July 1, 2008, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 8 under the authorized financing program for CFD No. 8, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

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

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

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

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

**"Previously Issued Bonds"** means all Bonds that have been issued by CFD No. 8 prior to the date of prepayment.

**1. Prepayment in Full**

All Assessor's Parcels of Developed Property and Assessor's Parcels of Undeveloped Property for which a building permit has been issued may be prepaid. The Special Tax obligation applicable to such Assessor's Parcel in CFD No. 8 may be fully prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel or any other Assessor's Parcel owned by such

owner at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 60 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator will charge a fee to the owner requesting prepayment for providing this figure. Prepayment must be made not less than 75 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Trust Agreement.

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

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	<u>Reserve Fund Credit</u>
Total:	equals Prepayment Amount

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

**Paragraph No.:**

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property (for which a building permit has been issued), compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already classified as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 8 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 8 as if such development had been completed prior to January 1 of the preceding Fiscal Year, excluding any Assessor's Parcels which have been prepaid, and  
  
(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated Backup Special Taxes at buildout of CFD No. 8 using the Backup Special Tax amount for the current Fiscal Year as if such development had been completed prior to January 1 of the preceding Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
6. Compute the current Future Facilities Costs.
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of CFD No. 8, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Trust Agreement), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Trust Agreement) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amount computed pursuant to paragraph 13 (the "Prepayment Amount").
15. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, and 13 shall be deposited into the appropriate fund as established under the Trust Agreement and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 8.

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

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

## **2. Prepayment in Part**

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

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

These terms have the following meaning:

PP = the partial prepayment

PE = the Prepayment Amount calculated according to Section 11.1

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

A = the Administration Fees and Expenses from Section 11.1

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

With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Paragraph 15 of Section 11.1. and (ii) indicate in the records of CFD No. 8 that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage  $(1.00 - F)$  of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

Notwithstanding the foregoing, no full or partial Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 8 both prior to and after the proposed prepayment, less expected Administrative Expenses, is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

## **I. TERM OF SPECIAL TAX**

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2041-42.

## EXEMPT AREA DIAGRAM

Approved: \_\_\_\_\_  
 \_\_\_\_\_  
 Los Angeles County Jail  
 District No. 6, located at  
 Ceres, Los Angeles County,  
 California

Figure 1. The effect of the initial concentration of the monomer on the polymerization of  $\alpha$ -methylstyrene initiated by  $\text{BuLi}$  in THF at  $-78^\circ\text{C}$ . The polymerization was carried out in the presence of  $1.0 \times 10^{-2}$  mole/l. of  $\text{BuLi}$  in THF at  $-78^\circ\text{C}$ . The polymerization was terminated by the addition of methanol. The polymerization was carried out in the presence of  $1.0 \times 10^{-2}$  mole/l. of  $\text{BuLi}$  in THF at  $-78^\circ\text{C}$ . The polymerization was terminated by the addition of methanol. The polymerization was carried out in the presence of  $1.0 \times 10^{-2}$  mole/l. of  $\text{BuLi}$  in THF at  $-78^\circ\text{C}$ . The polymerization was terminated by the addition of methanol.

A. P. N. 2582-001-012

A.P.N. 2603-007-038

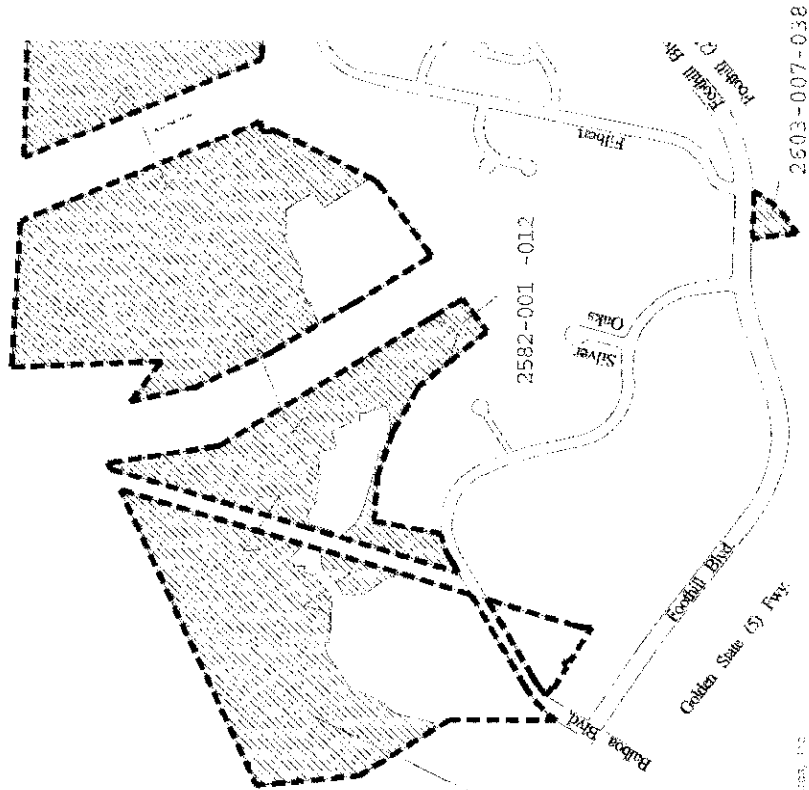
L.I.A. PARCEL 3

L.L.A. PARCEL 3



reference is hereby made to the several pages of the County of Los Angeles and to City of Los Angeles, California Assessor's Parcel Identification No. 2697-1001 for a description of the land and dimensions of the same.

Figure 1. Schematic representation of the experimental design. The subjects were divided into two groups: the control group (CG) and the experimental group (EG). The CG was divided into two subgroups: the control group (CG) and the control group (CG). The EG was divided into two subgroups: the experimental group (EG) and the experimental group (EG). The subjects were divided into two groups: the control group (CG) and the experimental group (EG). The CG was divided into two subgroups: the control group (CG) and the control group (CG). The EG was divided into two subgroups: the experimental group (EG) and the experimental group (EG).



## **APPENDIX B**

### **APPRAISAL**

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**APPRAISAL REPORT**

**CITY OF LOS ANGELES  
COMMUNITY FACILITIES DISTRICT NO. 8  
LEGENDS AT CASCADES**

Prepared for:

**CITY OF LOS ANGELES  
200 N. Main Street, Room 1500  
Los Angeles, CA 90012**

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

April 2010



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# Harris Realty Appraisal

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

April 2, 2010

Ms. Natalie R. Brill  
Chief of Debt Management  
CITY OF LOS ANGELES  
200 N. Main Street, Room 1500  
Los Angeles, CA 90012

Re: **CFD No. 8**  
***Legends at Cascades***

Dear Ms. Brill:

In response to your authorization, we have prepared a self-contained appraisal report that addresses all of the taxable property within the boundaries of the City of Los Angeles Community Facilities District No. 8 (CFD No. 8). This appraisal includes an estimate of the Minimum Market Value of the land and improvements subject to special tax. The land is under the ownerships of KB Home Greater Los Angeles Inc., Cascades Park Properties, LLC and 156 individual homeowners. The land ranges from near mass-graded condition to finished sites with completed and occupied dwellings.

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

Based on the investigation and analyses undertaken, our experience as real estate appraisers and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Minimum Market Value is formed as of April 1, 2010.

**FIFTY-FIVE MILLION NINE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS**

**\$55,975,000**

**156 Individual Homeowners – \$49,900,000**

**20 Units - KB Home Greater Los Angeles Inc. - \$6,075,000**

**Cascades Park Properties, LLC – No Value**

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 City of Los Angeles for use in the issuance of Community Facilities District No. 8. The intended users of this report are the City of Los Angeles, its Underwriter, Legal Counsel, Consultants, and potential bond investors. This appraisal has

Ms. Natalie R. Brill  
April 2, 2010  
Page Two

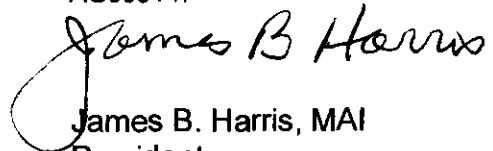
been prepared in accordance with and is subject to the requirements of the Appraisal Standards for land secured financing as published by the California Debt and Investment Advisory Commission; the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Foundation; and the *Code of Professional Ethics* and the *Standards of Professional Appraisal Practice* of the Appraisal Institute.

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

Respectfully submitted,

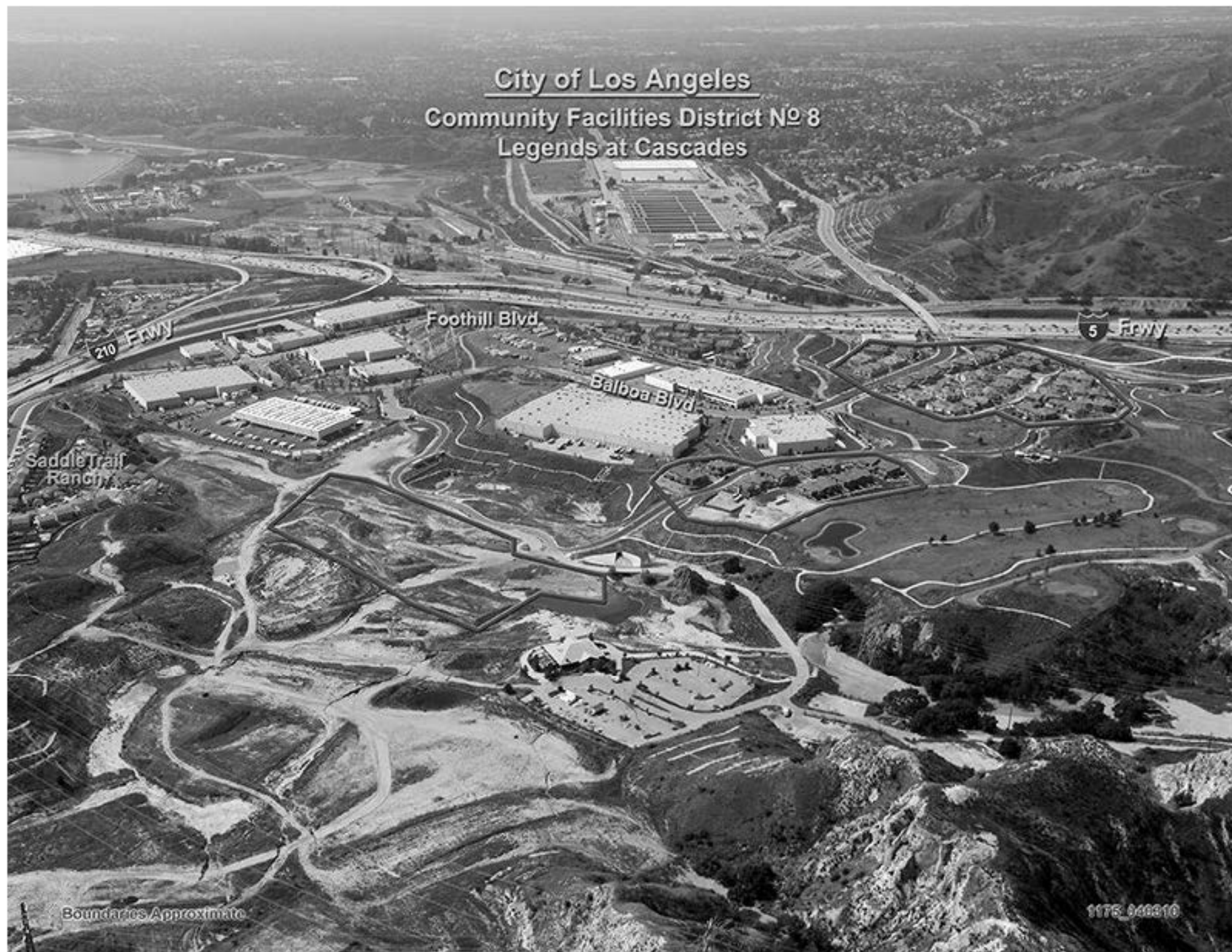


Berri Cannon Harris  
Vice President  
AG009147



James B. Harris, MAI  
President  
AG001846

City of Los Angeles  
Community Facilities District No 8  
Legends at Cascades



## **SUMMARY OF FACTS AND CONCLUSIONS**

<b>EFFECTIVE DATE OF APPRAISAL</b>	April 1, 2010
<b>DATE OF REPORT</b>	April 2, 2010
<b>INTEREST APPRAISED</b>	Fee Simple Estate, subject to special tax liens
<b>LEGAL DESCRIPTION AND OWNERSHIP</b>	<p>Village 1 - <i>106 Individual Homeowners</i> Units 1 – 3, 5 – 14, 16 – 27 &amp; 36 – 116; Lot 1 Tract No. 60913-1 <i>10 Units - KB Home Greater Los Angeles Inc.</i> Units 4, 15 &amp; 28 – 35; Lot 1 Tract No. 60913-1</p> <p>Village 2 - <i>20 Individual Homeowners</i> Units 117 - 120, 122, 124, 128 – 132, 137 &amp; 139 – 146; Lot 1 Tract No. 60913-1 <i>10 Units - KB Home Greater Los Angeles Inc.</i> Units 121, 123, 125 - 127, 133 – 136 &amp; 138; Lot 1 Tract No. 60913-1</p> <p>Village 3 - <i>Cascades Park Properties, LLC</i> Lot 2 Tract No. 60913-1</p> <p>Village 6 - <i>30 Individual Homeowners</i> Units 147 through 176; Lot 1 Tract No. 60913-2</p>
<b>SITE CONDITION</b>	<p>All of Villages 1, 2 and 6 are in a finished site condition. Villages 1 and 6 have completed condominium buildings and units. Village 2 includes 8 completed buildings and units. According to the site plan, four additional buildings are proposed. The four additional buildings and proposed units are not a part of this CFD and therefore, not a part of this appraisal assignment. Village 3 is in a near mass-graded site condition.</p>
<b>HIGHEST AND BEST USE</b>	<p>Villages 1, 2 and 6 consist of completed townhome units. The site plan for Village 2 is plotted for 4 additional buildings that are not a part of CFD No. 8. The dwellings range in size from 1,092 square feet to 2,646 square feet. The existing improvements are considered to be the highest and best use of the sites. Village 3 is planned for 111 attached for-sale condominium units. The site can be improved with 111 units of the Brighton townhome product. Development of other attached for-sale dwellings are allowable uses, however, the number of dwellings based on the land use plan or site plan is unknown. The Brighton townhomes range from 1,092 square feet to 2,024 square feet. Given current market conditions.</p>

## **SUMMARY OF FACTS AND CONCLUSIONS**

### **VALUATION CONCLUSIONS**

**\$55,975,000 MINIMUM MARKET VALUE**

*\$49,900,000 – 156 individual homeowners*

*\$6,075,000 – 20 Units - KB Home Greater Los Angeles Inc.*

*No Value – Cascades Park Properties, LLC*

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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 taxable property within Community Facilities District No. 8, located in the City of Los Angeles. The purpose of this appraisal is to estimate the "As Is" Minimum Market Value of the land and improvements under the ownerships of 156 individual homeowners, the merchant builder; KB Homes Greater Los Angeles, Inc. and the developer, Cascades Park Properties, LLC.

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 City of Los Angeles.

### Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for Community Facilities District bond purposes only. The subject properties are 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. 8 is \$10,000,000.

### Client and Intended Users of the Report

This report was prepared for our client, the City of Los Angeles. The intended users of the report include the City, its Legal Counsel, 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 property under the ownership of the individual homeowners and merchant builder within the boundaries of CFD No. 8. Although the district encompasses land proposed for 715 total dwelling units, only the land encompassing the 287 dwellings subject to the special tax lien are included in this



# HRA

appraisal. This is a fully documented self-contained appraisal report. Any lands designated for park, open space, flood control or civic uses within these tracts not subject to special tax are not included in this assignment.

The residential land is valued in its "As Is" condition as of the date of value. Site development for the subject property ranges from near mass-graded land to a finished site condition with completed and occupied dwellings.

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 property.

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 Los Angeles (zoning information, building permit trends), Los Angeles Chamber of Commerce (local demographic trends), Hanley Wood Market Intelligence (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.

## **Date of Value and Report**

The opinion of Minimum Market Value expressed in this report is stated as of April 1, 2010. The date of the appraisal report is April 2, 2010.

## **Date of Inspection**

The subject property was inspected on numerous occasions, with the most recent on March 21, 2010.

# HRA

## **Property Rights Appraised**

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

## **Property Identification**

The subject property consists of land under site construction in the City of Los Angeles. According to the City's Special Tax Consultant, the taxable portion of CFD No. 8 is identified as Parcels 1 and 2 of LLA No. 2007-1009 of Lots 1 and 2, Tract No. 60913-1 and Lot 1 of Tract No. 60913-2. CFD No. 8 contains 171± gross acres, with 33± net acres proposed for 287 dwelling units. Please refer to the CFD boundary maps on the following three pages.

The property is currently concluding the sell-out of two townhome projects known as Brighton/Fairways and Summerlin/Greens, within Villages 1, 2 and 6. Village 3 is near mass-graded land currently entitled for 111 condominium dwelling units.

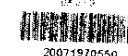
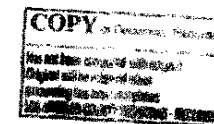
## **Legal Description and Ownership**

Village 1 -	106 Individual Homeowners Units 1 – 3, 5 – 14, 16 – 27 & 36 – 116; Lot 1 Tract No. 60913-1 10 Units - KB Home Greater Los Angeles Inc. Units 4, 15 & 28 – 35; Lot 1 Tract No. 60913-1
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Village 3 -	Cascades Park Properties, LLC Lot 2 Tract No. 60913-1
Village 6 -	30 Individual Homeowners Units 147 through 176; Lot 1 Tract No. 60913-2

SHEET 1 OF 2

116/62

**PROPOSED BOUNDARIES OF  
CITY OF LOS ANGELES  
COMMUNITY FACILITIES DISTRICT NO. 8  
(Legends at Cascades)  
COUNTY OF LOS ANGELES  
STATE OF CALIFORNIA**



(1) Filed in the office of the City Clerk of the City of Los Angeles this 17th day of August, 2007.

Frank T. Martinez  
Frank T. Martinez  
City Clerk, City of Los Angeles

(2) I hereby certify that the within map showing the proposed boundaries of City of Los Angeles Community Facilities District No. 8 (Legends at Cascades), County of Los Angeles, State of California, was approved by the Council of the City of Los Angeles at a regular meeting thereof, held on this 17th day of August, 2007, by its Resolution No. C.F. 05-0266.

Frank T. Martinez  
Frank T. Martinez  
City Clerk, City of Los Angeles

(3) Filed this \_\_\_\_ day of \_\_\_\_\_, 2007, at the hour of \_\_\_\_ o'clock \_\_\_\_ m, in Book \_\_\_\_ of Maps of Assessment and Community Facilities Districts at Page \_\_\_\_ and as Instrument No. \_\_\_\_ in the office of the County Recorder in the County of Los Angeles, State of California.

Conny B. McCormack  
Registrar-Recorder/County Clerk,  
County of Los Angeles

By \_\_\_\_\_ Deputy  
Fee \_\_\_\_\_

Exempt recording requested,  
per CA Government Code §6103

11/43

SHEET 2 OF 2

**PROPOSED BOUNDARIES OF  
CITY OF LOS ANGELES  
COMMUNITY FACILITIES DISTRICT NO. 8  
(Legends at Cascades)  
COUNTY OF LOS ANGELES  
STATE OF CALIFORNIA**

**LEGEND**

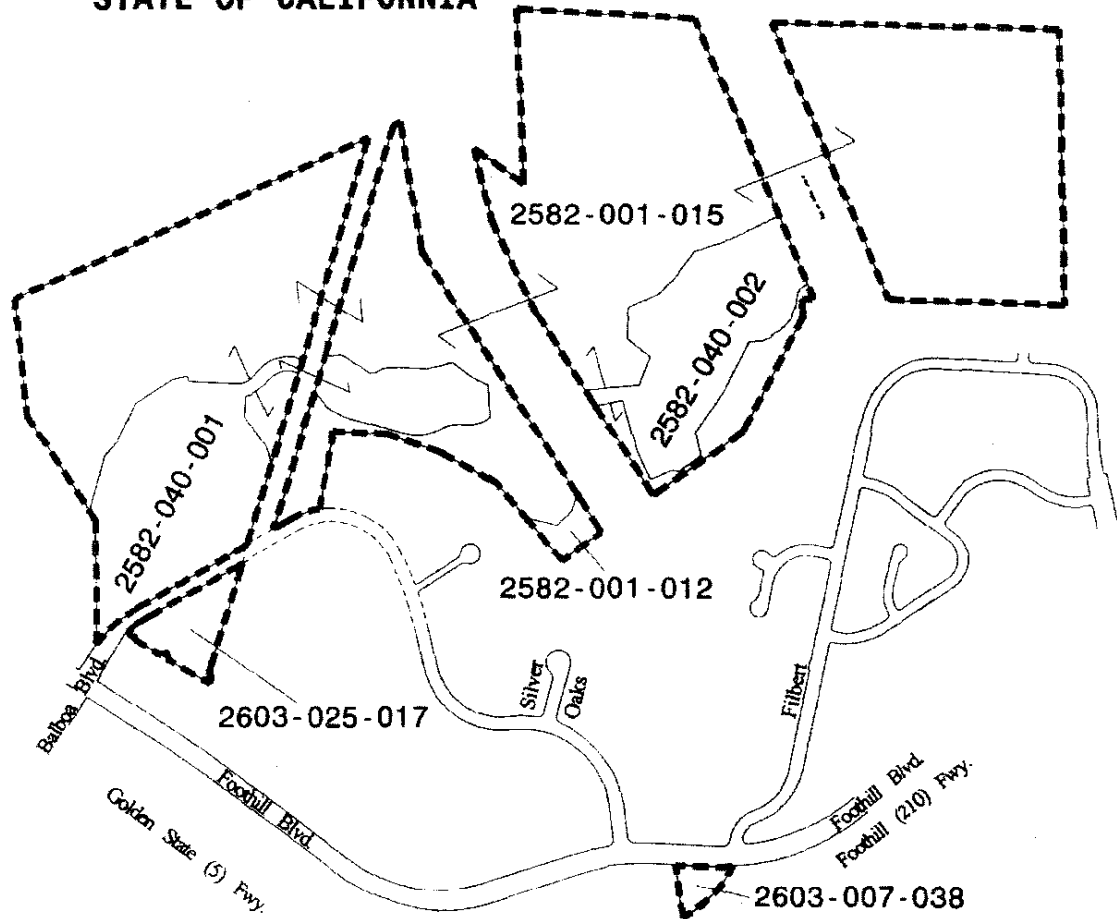
----- Proposed Boundaries of City of  
Los Angeles Community Facilities  
District No. 8 (Legends at  
Cascades), Los Angeles County,  
California

2582-001-012  
2582-001-015  
2582-040-001  
2582-040-002  
2603-007-038  
2603-025-017

Assessor Parcel Numbers

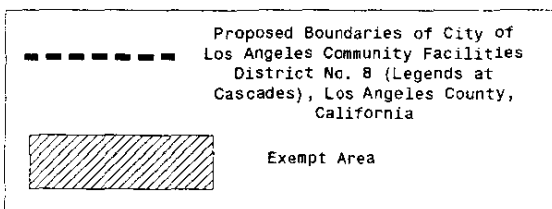


Reference is hereby made to the Assessor maps of the  
County of Los Angeles for a description of the lines  
and dimensions of these parcels.



SHEET 1 OF 1

**EXEMPT AREA DIAGRAM  
CITY OF LOS ANGELES  
COMMUNITY FACILITIES DISTRICT NO. 8  
(Legends at Cascades)  
COUNTY OF LOS ANGELES  
STATE OF CALIFORNIA**

**LEGEND****Exempt Parcels**

A.P.N. 2582-001-012

A.P.N. 2603-007-038

L.L.A. PARCEL 3

L.L.A. PARCEL 3

2582-001-012

2603-007-038



Reference is hereby made to the Assessor maps of the County of Los Angeles and to City of Los Angeles Lot Line Adjustment Parcel Map Exemption No. 2007-1009 for a description of the lines and dimensions of these parcels.

Prepared by David Toussig &amp; Associates, Inc.

CONSULTING REAL ESTATE APPRAISERS

# HRA

## Property History

The subject property was originally acquired in two transactions, between Cascades Park Properties, LLC, and 2.09 Cascades Acres, (Sellers) and KB Home Greater Los Angeles Inc., (Buyer). The first takedown (257 units) recorded January 20, 2006. The sales price was \$41,963,000. The second take down of 30 units closed escrow on September 28, 2007 for a price of \$4,155,000. The original Purchase Agreement and Escrow Instructions were signed on February 28, 2004. The original purchase price for the property is based on \$138,500 per finished Brighton Dwelling Site and \$154,000 per finished Summerlin Dwelling Site. At a minimum, the original aggregate purchase price was based upon 478 dwelling units comprised of 287 Brighton units and 191 Summerlin units regardless of the actual number of units. The buyer and seller acknowledged that the actual number of dwelling units would be determined upon receipt of Tentative Map approval and/or approval of the Final Maps, and the purchase price was adjusted accordingly upon receipt of approvals.

In July 2004, the proposed development was expanded to 550 units. The expansion occurred as the seller acquired an additional property that was formerly zoned M1. In 2006, the number of units was increased to 634. For these additional 84 units, the Brighton Sites were priced at \$155,000 per finished site and the Summerlin sites were priced at \$195,000 per finished site. KB Home Greater Los Angeles Inc. had an option on the units in excess of the subject 287 units. KB Home Greater Los Angeles Inc. had the option to purchase an additional 244 sites at some future time for \$36,577,000. The final 100 units were optioned for \$15,040,000. The total sales price for the 634 units KB Home has purchased or had an option to purchase was \$93,580,000. The land developer (Cascades) obtained entitlement for an additional 81 units, increasing the total development to 715 units. Although the entire development is proposed for 715 units, this appraisal is only of the 287 units in Villages 1, 2, 3, and 6.

It is our understanding that the seller, Cascades Park Properties, LLC, acquired the majority of the subject and existing golf course facilities from Cascades Golf Course, LLC. The purchase price, which included the clubhouse and the golf course

# HRA

operation, was \$31,500,000 and recorded on December 27, 2004. Lot 1 of Tract No. 60913-2 was acquired on June 17, 2004 for \$2,279,045.

According to the developer's title company, on November 30, 2009, Cascades Park Properties, LLC acquired Village 3 from KB Home for \$2,000,000 as part of a multi-party settlement agreement concerning the 111 proposed units in Village 3 and the adjacent property encumbered by KB Home's purchase option, trust deed and letter of credit. Many of the details of the transaction contain confidentiality clauses and were not made available to the appraisers. The sale was related to the builder's ability to carry over loss to prior years income and receiving tax credits. It is the appraiser opinion that the sale is not considered to be an arms-length transaction on many levels. Based on this transaction the indicated price per proposed dwelling unit in Village 3 is approximately \$18,000 per dwelling unit.

## **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.

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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.

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## **Minimum Market Value**

It may be appropriate for projects that have built-out and occupied product to use mass appraisal techniques, *utilizing conservative per dwelling unit estimates*. When conforming groups of property types within the same CFD are built and have achieved a stabilized occupancy, appraisers may use a limited valuation to value a sampling of similar properties. The value conclusions reached, render an overall conservative value estimate, or Minimum Market Value for the tract.

## **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 Minimum Market Value included herein, reflects the value potential buyers would consider given the special tax lien of Community Facilities District No. 8.

## **Bulk Sale Value<sup>3</sup>**

Bulk sale value should be estimated for all vacant properties--both unimproved properties and improved or partially improved but unoccupied properties. Bulk sale value is derived by discounting retail values to present value by an appropriate discount rate, through a procedure called *Discounted Cash Flow Analysis*. A second method is to use bulk land sales. These are sales of numerous individual parcels sold to one buyer. Bulk sale value is defined as follows:

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a

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

<sup>3</sup> *Appraisals Standard for Land-Secured Financings*, published by CDIAC, 1004, Page 10



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specified date, in cash, or terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

## **Mass Appraisal**

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

## **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.

## **Super Pad Parcel**

Pad graded parcel includes interior streets cut and padded lots with utilities stubbed to the parcel and perimeter streets complete.

## **Finished Parcel<sup>4</sup>**

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include padded site, streets and utilities to the site, 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 in.

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<sup>4</sup> Ibid, Page 334

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## **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 appraisers have been provided with costs to complete from Cascades Park Properties, LLC. 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 appraisers have been provided with two preliminary title reports for all of the taxable property within the District under the ownerships of the merchant builder and developer. The reports were prepared in May 2010 for Village 3 and January 2006 for Villages 1, 2 and 3. *For purposes of this appraisal, we have assumed there are no easements, conditions, encroachments or restrictions that would adversely impact the continued development of the subject as currently planned.* Please refer to the site section of this report for further information regarding the title policies.

The individual parcel sizes have been calculated by Sikand Engineering. 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 Minimum Market Value are expressed in this report is April 1, 2010. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

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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.

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, and specifically throughout the subject property, 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.

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

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

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

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

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

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

**The liability of Harris Realty Appraisal and the appraisers responsible for this report is limited to the client only and to the fee actually received by the appraisers. Further, there is no accountability, obligation or liability to any third party. If the appraisal report is placed in the hands of anyone other than the client for whom this report was prepared, the client shall make such party and/or parties aware of all limiting conditions and assumptions of this assignment and related discussions. Any party who uses**

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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, Los Angeles County, City of Los Angeles 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.

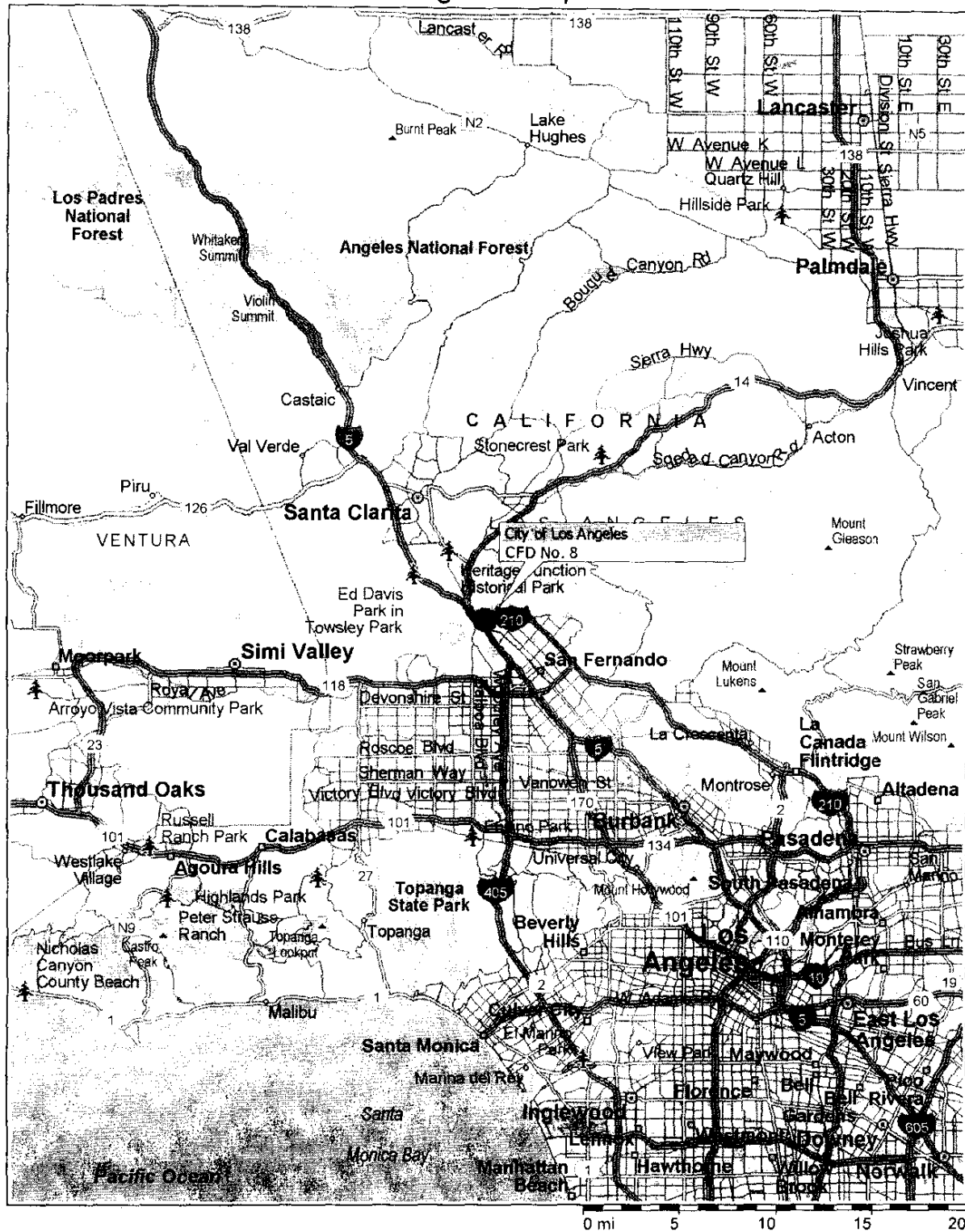
### **Population**

The Southern California region has added about 8.1 million new residents since 1980 as indicated in the table shown on page 17. According to the California Department of Finance, the most recent data available indicate that as of January 2009, the regional population stood at over 21.7 million. If the region were an individual state, it would rank as one of the most populous in the nation.

Since 2000, annual population gains from natural increase and immigration have ranged from a low of 61,400 persons in 2008 up to 397,400 persons in 2002. These figures represent annual gains of 0.3% to 2.0%. During the past five years, the population of the six-county Southern California region grew by 0.3% to 1.3% per annum.

As of January 2009 the population of the six-county area stood at 21,710,400 persons. Looking toward the future it is estimated that the region's population will continue

## Regional Map



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to climb as new residents seek out the Southern California area. Starting with the economic downturn from 1992 through 1996, and continuing through 2009, the population growth rate declined compared to the growth experienced in the late 1980s.

## Population Trends 1980-2009

<u>Year</u>	<u>Population</u>	<u>Average Annual Change</u>	
		<u>Number</u>	<u>Percent</u>
1980 <sup>1</sup>	13,359,673	--	--
1990	17,029,545	366,987	2.7%
2000	19,187,500	215,795	1.3%
2001	19,522,500	335,000	1.7%
2002	19,919,900	397,400	2.0%
2003	20,299,100	379,200	1.9%
2004	20,629,300	330,200	1.6%
2005	20,902,600	273,300	1.3%
2006	21,147,200	244,600	1.2%
2007	21,430,300	266,100	1.3%
2008	21,491,700	61,400	0.3%
2009	21,710,400	218,700	1.0%

<sup>1</sup> April 1, 1980, 1990, and 2000, all other years January 1  
Source: California Department of Finance 1/10

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 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 employment. The table on the next page illustrates the non-agricultural wage employment trends in Southern California.

## Southern California Region Employment Trends 1983-2009<sup>1</sup>

<u>Year</u>	<u>Employment</u>	<u>Average Annual Change</u>	
		<u>Number</u>	<u>Percent</u>
1983	5,691,000	--	--
1990	7,288,100	159,710	2.8%
2000	7,918,200	63,000	0.9%
2001	8,015,300	97,100	1.2%
2002	8,007,500	(7,800)	(0.1%)
2003	8,035,400	27,900	0.3%
2004	8,159,700	124,300	1.5%
2005	8,310,500	150,800	1.8%
2006	8,481,600	171,100	2.1%
2007	8,514,100	32,500	0.4%
2008	8,365,100	(149,000)	(1.8%)
2009	7,837,300	(527,800)	(6.3%)

<sup>1</sup> 2008 benchmark

Source: Employment Development Department

3/10

In the Southern California region, average annual non-agricultural employment has grown from 5,691,000 jobs in 1983, to a then peak employment of 8,015,300 in 2001. Employment declined to 8,007,500 in 2002. This decline was mostly caused by a 46,800 job decrease in Los Angeles County. Each year between 2003 and 2007, Southern California employment climbed to a new record level, 8,514,100 in 2007. This was in spite of Los Angeles County only adding an additional 139,000± net jobs in four years. In 2008, the number of jobs declined by 149,000 to 8,365,100. The job losses accelerated in 2009 to a loss of 527,800 jobs for a total of 7,837,300 jobs. This two year decline wipes out about ten years of increases. This represents a decrease of over 80,000 new jobs since 2000 in Southern California.

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 192,100 jobs or 2.7%. In 1992 when the full weight of the recession was felt, area employment suffered the highest annual decline in jobs registered in the 25 years, losing nearly 204,000 jobs or a percentage decrease of 2.9%. This was followed by further

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employment declines of 102,600 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 adverse employment issues experienced in the prior three years had abated. In 1998, total non-agricultural employment stood at 7.4 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, we had 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. 2004 had a moderate gain over 2003. Employment gains continued to recover in 2005, 2006, and 2007 with an additional 354,400 new jobs or a 4.3% increase. 2008 showed the first major decline since 1991-1993 with a loss of 149,000 jobs, or a 1.8% decline from 2007. During 2009, an additional 527,800 jobs were lost, or a 6.3% decline from 2008.

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 previous five years. During the period from 1991 through 1994, construction employment declined in response to decreased residential and commercial construction activity. From 1994 through 2006, as the economy rebounded, residential construction increased bringing back more than the construction jobs lost during the recession. Construction jobs have declined since the first quarter of 2007 as the residential market and commercial markets have weakened.

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.

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The Southern California economy, which historically depended heavily on aerospace and defense related employment, was dealt a double blow. First from the reduction of the space program and reduced defense spending which affected manufacturers and suppliers, and second from the closure of several military bases which has had 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. Over the last ten years, job growth in this sector has been significant. However, jobs declined in 2006 and continue to decline in 2007, 2008 and 2009 as real estate loan demand declined. 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 last ten years.

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 prices, and population trends. However, the California state budget deficit has negatively impacted both state and local government employment.

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## **Los Angeles County**

The Los Angeles-Long Beach metropolitan statistical area, which is the same as Los Angeles County, consists of 88 individual cities and numerous unincorporated communities. Los Angeles County is bounded by Ventura County to the west, Kern County to the north, San Bernardino County to the east, Orange County to the southeast and the Pacific Ocean to the southwest. The major urbanized areas are located in the southern and western portion of the County. The major incorporated cities include the City of Los Angeles and Long Beach. Los Angeles County also includes the islands of Santa Catalina and San Clemente.

The following paragraphs will summarize the general population, employment, income and retail sales in Los Angeles County.

### **Population**

Los Angeles County has added over 870,000 new residents during the past ten years as illustrated in the following exhibit. As of January 2009 the countywide population was estimated at over 10.39 million residents. Annual population gains, from natural increase and immigration, have ranged from approximately -30,300 persons up to 283,442 since 2000. The annual changes represent gains and losses of -0.3% to 3.0%. The most recent population figures for January 2009 reflect a minimal growth rate consistent with recent trends. Over the last five years, the growth rate has ranged from -0.3% to 1.2%.

Looking toward the future, it is estimated by the California Department of Finance that the County's population will continue to increase, similar to the 1.0%± average rate exhibited in the 2000s.

**Los Angeles County, California  
Population Trends  
1980-2009<sup>1</sup>**

<u>Year</u>	<u>Population</u>	<u>Average Annual Change Number</u>	<u>Percent</u>
1980	7,477,517	--	--
1990	8,863,052	138,554	1.8%
2000	9,519,338	65,600	0.7%
2001	9,802,780	283,442	3.0%
2002	9,824,800	22,020	0.2%
2003	9,966,200	141,400	1.4%
2004	10,103,000	136,800	1.4%
2005	10,226,500	123,500	1.2%
2006	10,258,000	31,500	0.3%
2007	10,332,000	74,000	0.7%
2008	10,301,700	(30,300)	(0.3%)
2009	10,393,200	91,500	0.9%

<sup>1</sup> April 1, 1980, 1990; and 2000, all other years January 1.

Source: California Department of Finance, U. S. Census 3/10

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.

## **Employment**

Los Angeles County experienced a mild recession in 2001, but moved back on to a growth track at mid-year 2002. Specific problems for the County included the national recession, the slump in international trade, the "de facto" strike in the movie industry, and the impact of "9-11" on the tourism industry. Employment has remained very weak over the past ten years. Employment declined four out of ten years with an overall loss of 242,700 jobs since 2000.

Employment data for the County is compiled for the entire MSA, which includes all of Los Angeles County. Los Angeles County is a diverse economy, with manufacturing, trade, government and services the major industry groups. In conjunction with the population growth experienced in the past decade, the employment base has continued to grow and diversify. The Los Angeles unemployment rate is

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slightly above the Southern California average for Los Angeles, Orange, San Diego and Riverside-San Bernardino Counties. The higher unemployment rate is due to the loss of manufacturing employment in the area, which is just beginning to recover from the long-running economic recession. The following exhibit illustrates the labor force and unemployment trends in the County, compared to the California total, as of January 2010. The current unemployment rate is about 175% higher than the 2006 rate of 4.8%.

	<u>Labor Force</u>	<u>Unemployment</u>
California	18,125,400	13.2%
Los Angeles County	4,833,800	13.2%

The most common measure of employment growth is the increase in non-agricultural employment. Non-agricultural employment is outlined in the following exhibit. During the 1990s and 2000s the Los Angeles County employment base contracted, with the County having 306,300 fewer jobs than in 1990.

As reported by the Los Angeles Economic Development Corporation, Los Angeles County has ten base industries. These are primary industries where products are exported out of the County, which provides net job growth. They are listed by the size of the employed workers.

- Business and professional management services
- Health services/bio-med
- Tourism
- Direct International Trade
- Wholesale Trade
- Technology
- Motion Picture/TV Production
- Financial Services
- Apparel design/manufacturing/wholesaling
- AgriciFood Products Mfg.
- Furniture Mfgr. & Wholesaling

Please refer to the following table, which summarizes the Los Angeles County Employment Trends over the past 25 years.

**Los Angeles County  
Employment Trends  
1985-2009**

<u>Year</u>	<u>Employment</u>	<u>Average Annual Change</u>	
		<u>Number</u>	<u>Percent</u>
1985	3,754,300	--	--
1990	4,135,700	76,280	2.0%
2000	4,072,100	6,360	0.2%
2001	4,073,600	1,500	0.0%
2002	4,026,800	(46,800)	(1.1%)
2003	3,982,900	(43,900)	(1.1%)
2004	3,996,500	13,600	0.3%
2005	4,024,200	27,700	0.7%
2006	4,092,500	68,300	1.7%
2007	4,122,100	29,600	0.7%
2008	4,070,700	(51,400)	(1.2%)
2009	3,829,400	(241,300)	(5.9%)

Source: Employment Development Department 3/10

Non-agricultural employment grew from an annual total of 3.7 million in 1985 to a peak employment of over 4.1 million in 1990. This represented an increase of over 400,000 new jobs created in Los Angeles County during the late 1980's. The ratio of job formation to employment growth was significantly lower than in other areas such as Orange County and the Inland Empire area. As the national and regional economies stalled during the last half of 1990 and first half of 1991, annual employment gains declined. During 1991, Los Angeles County lost over 150,000 jobs or a 3.7% decline. During 1992 and 1993, Los Angeles County lost an additional 275,000 jobs. This employment decline erased the job gains of the prior several years. In 1994 the number of jobs lost was approximately 5,700. For 1995, the annual average non-agricultural employment grew almost 45,000 or a 1.2% gain in new jobs. Employment growth weakened to 41,900 in 1996, but increased to 76,500 in 1997 and 78,500 in 1998. In 1999 growth declined to 59,400 new jobs, but increased to 69,200 new jobs in 2000. Prior to September 11, 2001, the 2001 job growth was expected to be similar to 2000. However, the 2001 job growth was just 1,500 jobs. From 2002 through 2003 Los Angeles County lost an additional 90,700 jobs, although there was a 13,600 job-increase in 2004. In 2005, there was a 27,700 job increase, or 0.7%. For 2006, the increase was 1.7% or 68,300. This was the largest increase in seven years. However,



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job growth stalled in 2007, but increased to the record high level, and then declined in 2008 and 2009. It is forecast that job growth won't occur until 2011.

Employment among the individual industry categories reflects changes in the Los Angeles economy during the past decade. Construction employment gains were substantial following the 1981-1982 recession. In response to the high level of construction activity, which occurred in the County during the period from 1984 to 1989, construction employment reached peak levels. From 1990 through 1993, construction employment declined in response to decreased building activity. Annual average construction employment increased by 44% from 1996 through 2006. However, since 2006, construction employment has declined about 26%.

The number of manufacturing jobs in Los Angeles has exhibited a steady decline over the past decade as manufacturers have relocated to adjoining counties or relocated out-of-state. Due to the high labor and capital costs in Los Angeles and Orange Counties, manufacturing firms have expanded or relocated some of their manufacturing operations to Riverside and San Bernardino Counties to take advantage of the labor force and lower land costs. This decline continued during 2009, with manufacturing jobs dropping to 389,200 from 612,200 jobs in 2000, a decline of about 36%.

Transportation and public utilities employment tend to mirror population growth. In the Los Angeles market area, the finance, insurance and real estate ("FIRE") category play a major role in the employment picture. This employment category declined from 1995 through 1998 as a result of the consolidation in the banking industry. There have been small declines over the last seven years.

From 1995 to 2000, about 159,000 new jobs were created in the service sector. However, about 11,500 service jobs were lost in 2002 and 2003. About 80,000 jobs have been lost in the last five years. This basic change in the employment diversification may have a long-term negative impact on the area. The service sector will continue to play the major role in employment growth during the next few years. Government employment

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should grow at a rate similar to the population. The largest private sector employers in Los Angeles County are shown below. Government is the largest employer in the County. The Federal Government has 50,000 employees, the State Government has 82,200 employees, the County has 101,100 employees and the City has 97,900 employees. The numerous schools and colleges have 297,700 employees.

**LA County  
Top Private Sector Employers  
2010**

<b><u>Employer</u></b>	<b><u>Product/Service</u></b>	<b><u>No. of workers</u></b>
Kaiser Permanente	Health care provider	34,179
Northrup Grumman Corp.	Aerospace/Defense design & mfg.	19,137
Boeing Co.	Aerospace high technology	14,400
Kroger	Supermarket operator	14,000
University of Southern California	Education-private university	13,044
Target	Department retailer	13,000
Home Depot	Retailer	10,000
Wells Fargo	Commercial banking	9,800
Providence Health	Health care	9,715
Vons	Supermarket Operation	9,688

Source: Los Angeles Business Journal, "The Lists 2010"

## **Income**

For 2009, the average household income in Los Angeles County is estimated to be \$77,484. The median household income stands at \$52,204. These figures are similar to the Southern California regional average. Los Angeles County is the major component of the Southern California market, therefore it tends to mirror the Southern California region.

## Los Angeles County Household Income Distribution 2009

<u>Income Range</u>	<u>Households</u>	<u>Percent<sup>1</sup></u>
<\$15,000	428,930	13.03%
\$15,000 - \$24,499	333,006	10.12%
\$25,000 - \$34,999	330,635	10.04%
\$35,000 - \$49,999	455,343	13.83%
\$50,000 - \$74,999	583,148	17.71%
\$75,000 - \$99,999	389,921	11.84%
\$100,000 - \$149,999	420,985	12.79%
\$150,000 - \$249,999	233,543	7.09%
\$250,000 - \$449,999	74,618	2.27%
\$500,000+	41,833	1.27%
Total	3,291,970	100.00%
Median Household Income		\$54,204
Average Household Income		\$77,484

<sup>1</sup> Percent of Total Distribution  
Source: CLARITAS

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### Retail Sales

Retail demand, until recently, was fueled by the growth in population as outlined previously. For Los Angeles County, taxable retail sales have increased from \$29.7 billion in 1980 to an estimated \$63 billion in 1999. During the period from 1987 to 1989, increases ranged from \$2.6 billion to \$3.3 billion, or 5.8% to 7.2% per annum. During the recession from 1991 through 1993, annual retail sales declined significantly two out of the three years. As the economy began to recover in 1994, retail sales increased by over \$2.5 billion or 5.2%. The retail sales gains continued between 2.5% and 4.5% per year between 1995 and 1998. 1999 had an extraordinary increase of 10.0%, which reflected the strength of the economy. Retail sales increased 9.6% in 2000 to \$69.3 billion and 3.6% to \$71.8 billion in 2001. In 2002, retail sales increased 3.8% to \$74.5 billion and increased 6.5% to \$79.4 billion in 2003. Retail sales increased 8.9% in 2004 to \$86.5 billion. In 2005, retail sales increased 6.7% to \$92.3 billion. In 2006, retail sales increased 3.6% to \$95.6 billion. In 2007 retail sales were basically flat, however, in 2008 sales declined 6.5% to \$89.8 billion. Although not yet reported, retail sales for 2009 are expected to decline more than 12%.

**Los Angeles County  
Retail Sales Trends<sup>1</sup>  
1980-2008**

<u>Year</u>	<b>Taxable Retail Sales (000s)</b>	<b>Average Annual Change</b>	
		<b>Number (000s)</b>	<b>Percent</b>
1980	\$29,706,322	--	--
1990	\$50,922,504	\$ 818,020	1.6%
2000	\$69,354,394	\$1,843,189	3.6%
2001	\$71,834,562	\$2,480,168	3.6%
2002	\$74,547,977	\$2,713,415	3.8%
2003	\$79,426,726	\$4,878,794	6.5%
2004	\$86,496,685	\$7,069,959	8.9%
2005	\$92,271,155	\$5,774,470	6.7%
2006	\$95,554,193	\$3,283,038	3.6%
2007	\$96,095,711	\$ 541,116	0.6%
2008	\$89,810,309	(\$6,285,402)	(6.5%)

<sup>1</sup> Retail stores, taxable retail sales total

Source: State Board of Equalization

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Historically, the increases in retail sales are due to the County population growth rates experienced during the past ten years. In the future, retail sales growth will mirror the population growth in the County.

## **Housing**

The Los Angeles County housing market has lagged behind the rebounding markets in the surrounding counties. Up to 1997, Los Angeles County had six straight years of declining prices. Prices turned upward in 1997 and continue upward into 2007. However, the number of sales peaked in 2003 and 2004 and has been declining for the last seven years. The County's median price had its first year over year decline in a decade during 2007, and the decline continued in 2008 and 2009. However, sales prices bottomed during April and May of 2009 and have increased from about \$300,000 to \$327,000. The median condo price is \$295,000 in February, after declining for two straight months.

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## Housing Appreciation/Depreciation for Resale Homes

<u>Year</u>	<u>Annual Percentage Change</u>
1991	-5.8%
1992	-4.3%
1993	-8.2%
1994	-7.2%
1995	-2.8%
1996	-1.6%
1997	+2.4%
1998	+8.7%
1999	+10.6%
2000	+8.6%
2001	+8.2%
2002	+17.0%
2003	+21.8%
2004	+25.2%
2005	+23.4%
2006	+6.3%
2007	-5.3%
2008	-21.3%
2009	-13.9%

Source: RERCSC

Relatively strong employment and income growth along with low mortgage rates and declining housing inventory led to an average resale housing price appreciation of 8.2% in 2001. Although employment and income growth showed a slower growth rate in 2002, additions to the housing stocks in the County, measured by the number of permits, did not keep pace with growth in demand. As a result, resale home prices in 2002 increased by 17.0%, exceeding the projected inflation rate of 3.0%. This rapid increase in prices continued through 2005, with increases of 21.8%, 25.2% and 23.4%. However, in 2006 the appreciation rate declined 73% to a 6.3% appreciation. For 2007, the appreciation rate was -5.3% or an actual price decline. During 2008 the decline was 21.3% and during 2009 the decline was 13.9%. The subject area, Sylmar, had a 23% decrease in condo prices over the last 12 months. In January 2008, the California Association of Realtors reported that the San Fernando Valley has a 16.2-month inventory of unsold condos, triple the 20 year average of 5 to 6 months. The condo inventory declined to 5.4 months in January 2010.

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**Total Construction Activity**  
(valuation in thousand of dollars)

Sector	2002	2003	2004	2005	2006	2007	2008	2009
Dwelling Units	19,364	21,313	26,935	25,647	26,348	20,363	13,704	5,610
Residential Permit Valuation	\$4,299,000	\$5,154,000	\$6,567,000	\$6,671,000	\$6,747,000	\$5,957,000	\$3,955,000	\$2,389,000
No. of Deeds Recorded	428,264	488,723	456,904	444,005	382,707	303,348	229,558	259,323

Source: RERCSC

For 2009, only 5,610 building permits were issued with a valuation of \$2,389,000. That is a decline of 78.1% from the permits issued in 2005. For 2009, 259,323 deeds were recorded. This was a decline of 41.6% from 2005.

## **Transportation**

Los Angeles County is served by three major airports, Los Angeles International, Burbank Airport and Long Beach. All major airlines have flights into Los Angeles as the gateway to the west coast. Numerous international flights, especially to the Orient, originate out of Los Angeles International. Los Angeles International acts as the major airport access point for the Southern California region.

A network of freeways link most urbanized areas of the County. The major north-south arterial is the Santa Ana Freeway (I-5) and the San Diego Freeway (405). Three freeways, the Santa Monica (10), Pomona (60) and Foothill (210) provide east/west transit. A number of shorter freeways provide linkage between the major expressways. In an effort to alleviate traffic congestion, Los Angeles County has completed five light-rail transit projects, and numerous freeway improvements

## **City of Los Angeles**

The City of Los Angeles is the second most populous City in the United States with an estimated 2009 population of over 4.0 million persons. Los Angeles is the principal City of a metropolitan region ranging from the City of Ventura to the north, the City of San Clemente to the south, and the City of San Bernardino to the east.

The City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. Services, wholesale and retail trade, manufacturing, government, financial service industries, transportation, utilities, and

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construction contribute significantly to local employment. The City's 470 square miles contain 11.5% of the area and 39.1% of the population of the County of Los Angeles. The County is a top ranked County in manufacturing in the United States, in such diverse items as aircraft, aircraft equipment, aluminum, dental equipment, games and toys, gas transmissions and distribution equipment, guided missiles, space vehicles and propulsion units, and women's apparel. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach have a combined rank of first in the nation in volume. As home to the film, television and recording industries, as well as important cultural facilities, Los Angeles serves as a principal global cultural center. With Los Angeles International Airport serving as the new "Ellis Island" for foreign immigration to this country, the metropolitan region has achieved a new ethnic and cultural diversity.

## **Population**

The City's population expanded by 4.8% during the 1970s and by more than 17.4% from 1980 to 1990. This latter expansion compares to an 18.5% growth rate for the County and a 25.1% growth rate for the State of California (the "State") during the same period. During the 1990s, growth totaled only 6.0%. Over the last ten years, growth totaled 10.0%. However, since 2006 growth has averaged about 0.5% per year.

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## City of Los Angeles Population Statistics

1990	3,485,398
1991	3,648,400
1992	3,683,400
1993	3,700,300
1994	3,684,400
1995	3,646,200
1996	3,634,100
1997	3,642,800
1998	3,665,900
1999	3,700,600
2000	3,694,820
2001	3,743,300
2002	3,807,400
2003	3,859,400
2004	3,912,200
2005	3,957,900
2006	3,980,400
2007	4,018,000
2008	4,022,400
2009	4,065,600

Source: U. S. Census for 1980 and 1990; other figures are State  
Department of Finance estimates as of January 1 of each year. 5/09

## Income

The 2009 average household income in the City of Los Angeles is estimated to be \$71,384. The median household income is estimated to be \$46,212. These figures are moderately below the Los Angeles County average. The wide spread between the median and average household income amounts points out the large number of low income households and the large number of high income households.



**City of Los Angeles  
Household Income Distribution  
2009**

<u>Income Range</u>	<u>Households</u>	<u>Percent<sup>1</sup></u>
<\$15,000	220,604	16.42%
\$15,000 - \$24,499	157,716	11.74%
\$25,000 - \$34,999	149,818	11.15%
\$35,000 - \$49,999	192,084	14.30%
\$50,000 - \$74,999	221,250	16.47%
\$75,000 - \$99,999	134,585	10.02%
\$100,000 - \$149,999	139,928	10.42%
\$150,000 - \$249,99	79,455	5.91%
\$250,000 - \$499,999	29,278	2.18%
\$500,000+	18,707	1.39%
<b>Total</b>	<b>1,343,425</b>	<b>100.0%</b>
<b>Median Household Income</b>		<b>\$46,212</b>
<b>Average Household Income</b>		<b>\$71,384</b>

<sup>1</sup> Percent of Total Distribution  
Source: CLARITAS

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## Retail Sales

As the largest City in the County, the City accounted for \$39,292,200,000 (or 29.8%) of the total \$131,881,744,000 in County taxable sales for 2008. The table below sets forth a history of taxable sales for the City from 2004 through 2008. Total City taxable sales in 2008 increased 25.6% as compared to the total City taxable sales in 2000.

**Taxable Sales<sup>1</sup>  
City of Los Angeles  
(in thousands)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Apparel stores	\$1,574,342	\$1,707,160	\$1,798,035	\$1,897,411	\$2,097,824
General merchandise stores	3,525,399	3,720,692	3,932,407	3,952,550	3,542,908
Food stores	1,580,936	1,682,668	1,736,111	1,834,470	1,888,581
Eating and drinking establishments	4,579,413	4,943,745	5,282,931	5,632,290	5,743,366
Home furnishings and appliances	1,268,561	1,301,546	1,300,167	1,294,546	1,338,890
Building materials and farm implements	2,339,085	2,436,987	2,430,287	2,252,227	1,924,786
Auto dealers and auto supplies	4,034,474	4,187,135	4,158,144	4,077,862	3,302,737
Service stations	3,351,708	3,872,089	4,292,157	4,494,346	5,159,799
Other retail stores	<u>4,759,013</u>	<u>4,860,849</u>	<u>5,002,642</u>	<u>5,070,023</u>	<u>4,383,989</u>
Retail Stores Total	\$27,012,931	\$28,712,871	\$29,932,881	\$30,505,725	\$29,382,881
All other outlets	<u>8,412,414</u>	<u>8,781,680</u>	<u>9,440,519</u>	<u>9,626,679</u>	<u>9,909,316</u>
<b>TOTAL ALL OUTLETS</b>	<b>\$35,425,345</b>	<b>\$37,494,551</b>	<b>\$39,373,400</b>	<b>\$40,132,404</b>	<b>\$39,292,197</b>

<sup>1</sup> The next annual update (for 2009) is expected in October 2010

Source: California State Board of Equalization, Research and Statistics Division

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## Construction Activity

The table below provides a summary of building permit valuations and number of new dwelling units in the City for the years 2002 through 2007. Permit valuations have not been reported for 2008 and 2009. However, with the large declines in the number of permits, the valuations have probably declined in similar proportions. During 2006, there were 2,419 single family permits and 11,752 multi-family permits for a total of 14,171 residential permits. This was the highest rate during the last ten years. The number of permits has declined each of the last three years and only totaled 1,682 permits in 2009. That was the lowest number of permits during the last eleven years.

**Building Valuations and Permits  
City of Los Angeles**

<u>Valuation<sup>1</sup></u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>2</sup></u>
Residential	\$974	\$1,062	\$1,816	\$1,789	\$2,435	\$2,079	N/A	N/A
Non-residential	<u>1,152</u>	<u>1,190</u>	<u>38</u>	<u>71</u>	<u>79</u>	<u>4</u>	<u>N/A</u>	<u>N/A</u>
TOTAL	\$2,126	\$2,252	\$1,854	\$1,860	\$2,514	\$2,133	N/A	N/A
<b>New Dwelling Units:</b>								
Single Family	1,364	1,397	1,779	2,099	2,419	2,032	644	226
Multifamily	<u>5,300</u>	<u>4,509</u>	<u>9,658</u>	<u>7,673</u>	<u>11,752</u>	<u>7,724</u>	<u>5,169</u>	<u>1,456</u>
TOTAL	6,664	5,906	11,437	9,772	14,171	9,756	5,813	1,682

<sup>1</sup>Millions of dollars

<sup>2</sup>First six months

Source: City of Los Angeles, Department of Building and Safety

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## San Fernando Valley

The subject property is located in Sylmar, an established community in the most northerly portion of the San Fernando Valley area of the City of Los Angeles. The San Fernando Valley encompasses most of the northern portion of Los Angeles. It is bounded on the north by the Santa Susana Mountains, on the east by the San Gabriel Mountains and Verdugo Hills, on the south by the Santa Monica Mountains, and on the west by Bell Canyon. Overall, the Valley encompasses 235 square miles.

The San Fernando Valley is a series of communities under the jurisdiction of the City of Los Angeles. There are only two incorporated cities: Burbank and San Fernando. With its large geographic area, the San Fernando Valley encompasses over 20 distinct communities. Several of the better-known communities include Chatsworth, Granada Hills, Northridge, Canoga Park, Woodland Hills, Encino, Van Nuys, Sherman Oaks, Studio City, North Hollywood, Sylmar, and Universal City. In general, the more

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desirable areas are located in the southern portion of the San Fernando Valley (south of the Ventura Freeway and in the foothills of the Santa Monica Mountains).

Housing is a significant component of the existing land uses in the San Fernando Valley. Generally, single-family homes and condominiums located south of Ventura Boulevard are the most expensive in the Valley. These areas benefit from good access to the Ventura Freeway, the primary highway traversing the Valley. In particular, the communities of Hidden Hills, Woodland Hills, Encino, Sherman Oaks, and Studio City have some of the most exclusive homes in the city. The Valley floor generally has lower-priced homes. Sales prices vary dramatically from community to community. Most of the homes on the Valley floor are older tract homes built in the 1950s. These homes were constructed to meet the demand generated during the post World War II boom period.

During the mid-2000s, with high single-family home prices and a continuing demand for housing in the San Fernando Valley, the development of higher density apartment buildings and condominiums accelerated. Most new development occurred as the redevelopment of older, low-density projects. Historically, condo/apartment demand was strong, and was driven by high home prices and the central location of the San Fernando Valley relative to employment centers. As a result, the San Fernando Valley area has become one of the most densely populated areas in Los Angeles County. However, over the last four years demand has weakened. Sales prices have plummeted along with the number of home sales.

Five freeways serve the San Fernando Valley. The Ronald Regan Freeway (SH-118) traverses the Valley along its northerly boundary, providing access between eastern Ventura County and the easterly San Fernando Valley. The Ventura Freeway (US-101) provides east/west access through the southern portion of the Valley. The Ventura Freeway is a primary route providing access between western Ventura County and eastern Los Angeles County. The San Diego Freeway (I-405) provides north/south access through the central portion of the San Fernando Valley. This freeway also runs

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through the westerly portion of Los Angeles County and intersects with the Golden State Freeway (I-5) at the northern end of the Valley, about two miles south of the subject property. The Hollywood Freeway (SH-170) provides north/south access between the Ventura Freeway and the Golden State Freeway in the easterly portion of the Valley. Finally, the Foothill Freeway (I-210) provides east/west access from the northeast portion of the San Fernando Valley to eastern Los Angeles County. This freeway is about one-quarter mile southerly of the subject property.

## **Sylmar**

The subject property is located in the Sylmar area of the City of Los Angeles. Sylmar is located in the north San Fernando Valley and is generally bordered by the Angeles National Forest to the north and northeast, the City of San Fernando to the southeast, the community of Mission Hills to the south, and the community of Granada Hills and the Los Angeles Reservoir to the west. These communities except for the City of San Fernando, are all portions of the City of Los Angeles and do not have distinct borders.

Based on a review of the Sylmar Community Plan, 5,807 acres of the total 7,990 acres of land within this district's borders are zoned for residential uses (73% of the total land area). The next largest category is open space, which totals 1,387 acres, or 17% of the total. Clearly, the higher percentage of land area designated for residential and open space land uses is indicative of a suburban community.

Commercial and industrial acreage is 200 and 596 acres, respectively, or 10.0% of the total land area. Significant new development in this district occurred in the 1980s through an increase in industrial/research and development/office construction. Most of this development is north of Roxford Avenue, between the Golden State and Foothill Freeways. The name of this development is the Hewson North Valley Business Center. The subject is adjacent to the newer Cascades Business Park.

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Demographic information for Sylmar is summarized in the following chart.

<b>Sylmar - Zip Code 91342</b>		
Population	2014 Projection	94,957
	2009 Estimate	89,735
	2000 Census	82,318
	2000-2009 % Change (growth)	9.01%
	2009-2014 % Change (growth)	5.82%
Housing Units	Built 1980 to present	35.50%
	Built 1970 to 1979	15.30%
	Built 1969 and earlier	49.20%
Income	2009 Average Household Income	\$74,226
	2009 Median Household Income	\$62,417
	2009 Per Capita Income	\$19,012

Source: Claritas

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## **Immediate Surroundings**

The subject property is located in the northeast portion of the San Fernando Valley. Specifically, the subject is generally located at the northern terminus of Silver Oaks Drive, between Foothill Boulevard and Filbert Street, in the community of Sylmar.

The subject property is located in the foothills, south of the Angeles National Forest just north of the Golden State Freeway (I-5) and Foothill Freeway (I-210) interchange. It is a portion of a planned development that includes industrial land to the south (a buffer to the freeways), a proposed golf course, and a sold-out single-family residential subdivision and vacant land proposed for residential use, owned by Cascades Park Properties, LLC. There is an existing industrial park to the south. Foothill Boulevard and the Golden State Freeway (I-5) border the site to the west and Filbert Street, as well as single-family homes, border the site to the east. In addition to the existing/proposed development, the site is negatively impacted by two Los Angeles Department of Water and Power high-tension lines. Specifically, these power lines cross the subject in the northeastern and northwestern portions of the site.

Local access to the subject property is provided by Balboa Boulevard, a major north/south street that provides access to the adjacent industrial park and connects to Foothill Boulevard at the east and west sides of the site. Foothill Boulevard is a major east/west road that traverses along the north side (and south side) of the Foothill

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Freeway (I-210) and the north side of the Golden State Freeway (I-5). Access to both freeways is located at San Fernando Road and Balboa Boulevard approximately one-half mile to the southwest of the subject and Yarnell Street approximately one-quarter mile east of the subject.

## **Conclusion**

The San Fernando Valley was originally developed as a bedroom community serving central Los Angeles employment centers. Due to the quality of its residential and commercial base, as well as to the emergence of major sources of employment in the area, the San Fernando Valley is now perceived as a distinct geographic section of Los Angeles with a major economic and employment base of its own. The subject property is considered to have an average to good location due to freeway access and proximity to open space near the Angeles National Forest in Sylmar.

## SITE ANALYSIS

### General

The subject property of this appraisal is identified as CFD No. 8, Legends at Cascades. The entire Legends at Cascades project is proposed for 715 attached and detached condominium units. The taxable portion of the subject CFD is proposed for 287 attached townhome dwellings. The taxable portion of CFD No. 8 is divided into four development parcels: Villages 1, 2, 3 and 6. All of Villages 1, 2 and 6 are in a finished site condition. Villages 1 and 6 have completed condominium buildings and units. Village 2 includes 8 completed buildings and units. According to the site plan, four additional buildings are proposed within Village 2 that are not a part of CFD No. 8. Village 3 is in a near mass-graded site condition. Extensive grading and wet and dry utility construction is required before the site would be in a buildable super pad condition. According to the developer, there are no plans for development in the near-term.

### Location

The subject property is located in the community of Sylmar in the City of Los Angeles in the most northerly section of the San Fernando Valley. The District is located just northeast of the junction of the I-5 and the I-210.

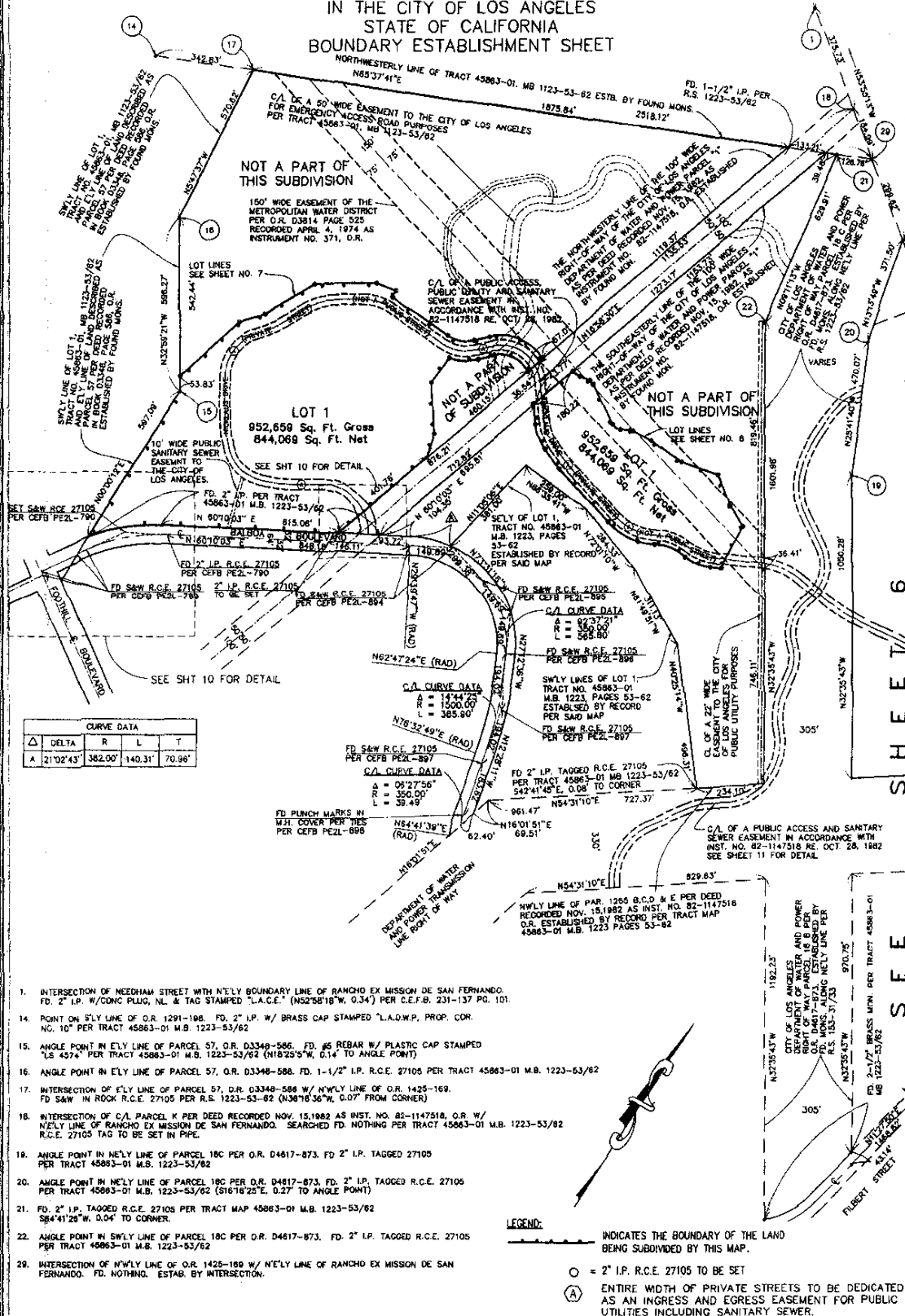
Specifically, CFD No. 8 is located at the north end of Silver Oaks Drive, north of Balboa Boulevard.

### Size and Shape

The overall shape of CFD No. 8 is very irregular and contains 171± gross acres, and 33± net taxable acres, according to the District's Special Tax Consultant, David Taussig & Associates. The taxable properties in CFD No. 8 have been subdivided into two Final Tract Maps, Nos. 60913-1 and 60913-2. Please refer to the table on page 44, which summarizes the tracts. The following two pages show copies of the tract maps.

SHEET 5 OF 11 SHEETS

IN THE CITY OF LOS ANGELES  
STATE OF CALIFORNIA  
BOUNDARY ESTABLISHMENT SHEET

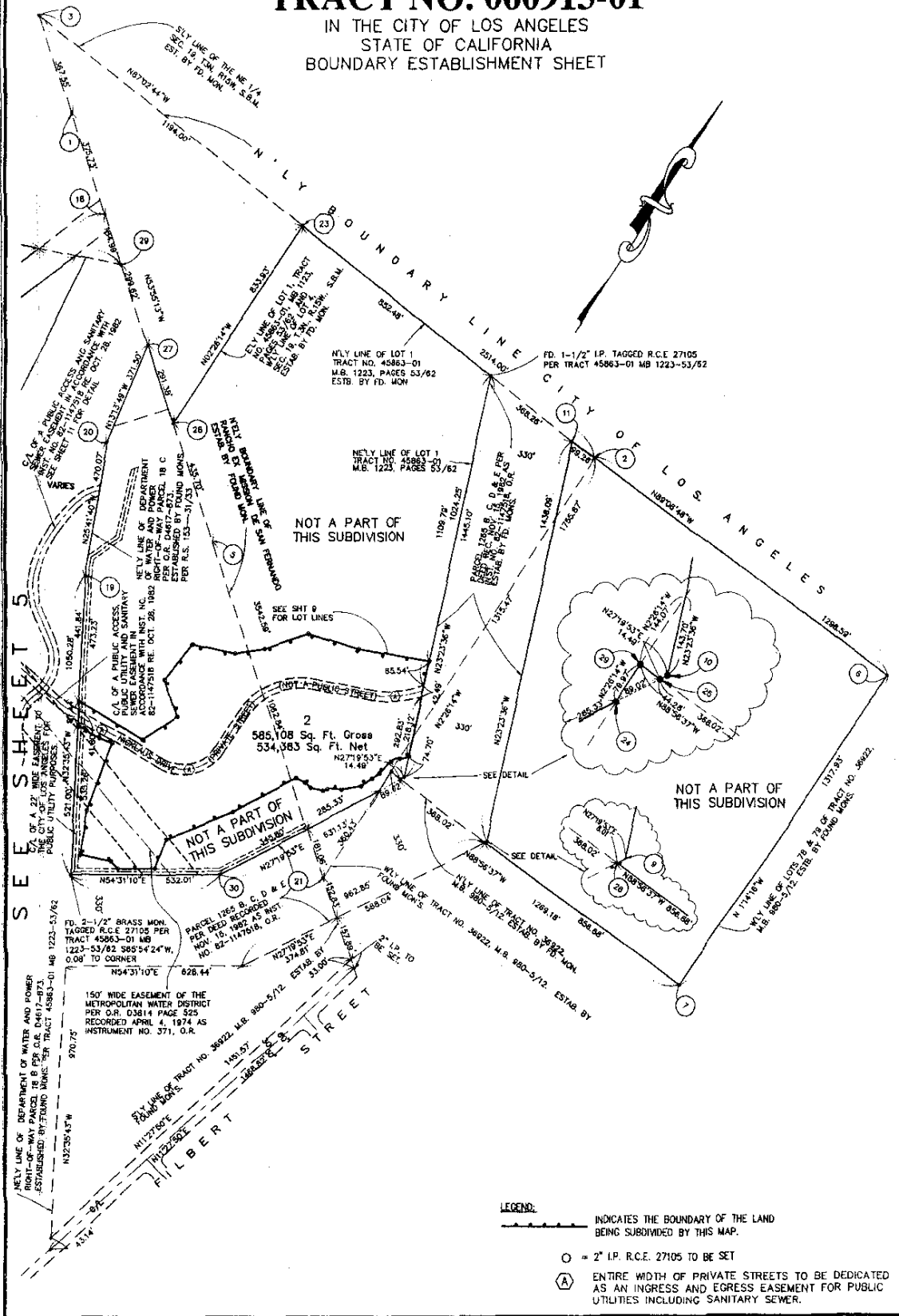




1312/95

SCALE: 1" = 200'

SHEET 6 OF 11 SHEETS

**TRACT NO. 060913-01**IN THE CITY OF LOS ANGELES  
STATE OF CALIFORNIA  
BOUNDARY ESTABLISHMENT SHEET



# HRA

## CFD No. 8

<u>Tract No.</u>	<u>Lot Nos.</u>	<u>Size (Acres)</u>	<u>Number of Units</u>
FM 60913-1	1 & 2	31.65	257
FM 60913-2	1	<u>3.09</u>	<u>30</u>
Total		34.74	287

### **Soils and Geology**

The entire taxable property has recorded final tract maps. Villages 1, 2 and 6 have been improved to finished lot condition with completed and occupied dwelling units. Village 3 was mass-graded in 2007, however, erosion has occurred and significant weed abatement is required. The site is generally considered in a near mass-graded site condition requiring grading and infrastructure before vertical construction could begin.

The appraisers are not qualified to detect soils or geological issues. It is assumed that soil conditions will permit the development of the property to the highest and best use as stated in this appraisal. It is recommended that the client and any potential bond purchasers review all soils and geotechnical reports.

### **Topography and Drainage**

The topography within the subject property has a generally rolling hillside terrain, with elevations ranging from 1,340 to 1,714 feet above sea level. Most of the site to be improved with dwellings will be pad graded between 1,362 and 1,450 feet above sea level. Site grading is completed for 176 level padded attached residential sites.

Surface runoff is generally directed southerly and westerly from the north property line via sheet flow to drainage swales or narrow ravines. Overall, regional drainage across the site is directed toward Grapevine Creek. After site development is completed, drainage will be by streets, storm drains and the future golf course.

# HRA

## Zoning

On November 23, 2004, the Los Angeles City Council adopted Ordinance No. 176301 changing the zoning designation of the entire Legends at Cascades from M1-1 (Industrial) to R3 and RD3 (Attached Multi-family Residential). The prior existing A-1 (Open Space/Golf Course) parcels remained A-1. The developable lands within the Legends at Cascades were approved for 550 dwelling units. On January 24, 2006, the zoning was revised to include 634 dwelling units. In November of 2007 the zoning was again revised to include a total of 715 dwelling units. Portions of Ordinance No. 176301, covering the entire Legends at Cascades project are following. All 287 units in CFD No. 8 are subject to this zoning.

**Use:** Project shall comply with all provisions of the R3, RD3 and A-1 zones.

**Density** permitted per subarea shall be as follows:

- A. A1 shall not exceed 230 dwelling units.
- B. B2 shall not exceed 30 dwelling units.
- C. C2, C2.5, C4, C5 and C6 combined shall not exceed 60 dwelling units.
- D. C10 and C12 combined shall not exceed 142 dwelling units.
- E. D2 shall not exceed 170 dwelling units.
- F. G2 and G3 combined shall not exceed 118 dwelling units.
- G. H shall not exceed 30 dwelling units.

**Golf Course:** Subareas G1, B1, C1, C1.5, C7, C8, C13, D1 and D3 shall be restricted to a golf course and related uses.

**Parking:** The applicant shall provide 2 covered parking spaces per condominium unit and one-half guest parking space per condominium unit.

**Height:** The maximum height of any structure shall not exceed 45-feet.

As existing and 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.

# HRA

## **Access and Circulation**

The subject area is served by the I-5 and I-210 Freeways which link the subject area with the major freeway network serving the entire Southern California region. I-5 travels from the Mexican border north through San Diego, Orange and Los Angeles counties, continuing north to the Canadian border. It connects with all east/west freeways. Full freeway interchange facilities are located approximately one-quarter mile east of the subject property at Yarnell Street and one-half mile south at Roxford Street. The junction of the I-5 and I-210 Freeways is adjacent to the subject properties.

Balboa Boulevard, at the subject property, is a major north/south street that provides access to the adjacent industrial park and connects to Foothill Boulevard at the east and west sides of the site. It has a dedicated width of 64 feet and is improved with one lane of traffic in each direction. Street improvements include asphalt paving and concrete curbs, gutters and sidewalks, and street lighting. This street provides access to the Village 1 portion of the subject development. The main interior street through Villages 1 and 2 is Nicklaus Drive, a private street. When Village 3 is developed, Nicklaus Drive will extend through the Village. This private street is 36 feet wide with two paved lanes and rolled concrete curb and gutter.

Silver Oaks Drive, at the subject property, is a north/south cul-de-sac street that is the main entrance to the future Cascades Golf Course. The street is effectively 245 feet long (from Balboa Boulevard to the private driveway that is the entrance to the future golf course). It has a dedicated width of 64 feet and is fully improved with two lanes of asphalt and concrete curbs, gutters and sidewalks, and street lights,

As the sites are improved, the interior streets will be completed with full street improvements. Sidewalks will be installed as part of the subject improvements.

## **Easements**

The appraisers were provided with two preliminary title reports, dated January 24, 2006 for Villages 1, 2 and 3 and an updated report dated May 17, 2010, showing the change of ownership to Cascades Park Properties, LLC for Village 3. There are

# HRA

numerous easements, earthquake zones, restrictions, unrecorded leases and conditions that impact the subject properties. Within the 2010 policy that covers Village 3, there are 2 unrecorded leases, 27± agreements between the City of Los Angeles and Silver Oaks, LLC, 21± agreements between the City of Los Angeles and Cascades Park Properties, LLC, 5 mechanics liens that total \$1,587,279.22 and a Deed of Trust for \$60,593,371 recorded December 2, 2009 as Instrument No. 20091814727 of Official Records. The Notice of Special Tax Lien for CFD No. 8 was not listed on the title policy prepared in 2006 for Villages 1, 2 and 3. The Lien for CFD No. 3 was listed in both policies. According to the developer, this lien was previously paid by the land developer (Cascades). The Lien for CFD No. 8 was listed in the 2010 policy. ***It is a specific assumption of this appraisal that easements and encumbrances impacting the properties are not detrimental to value. It is also an assumption of this appraisal that the property is marketable and there are no restrictions or conditions that would adversely impact the continued development of the subject property.***

## Affordable Units

The conditions of approval for Tract No. 60913 state: "Applicant agrees to make available up to 10% of the units (which are the carriage units in the Brighton Buildings) for L.A. Housing Authority workforce affordability programs with a base price under \$300,000, subject to proportionate L.A. County annual Area Median Income increases, and to allowable increases in base prices to the extent that such higher price units would be eligible for any L.A. Housing Authority workforce affordability programs such as low interest second trust deed loans, interest buy-downs and other programs funded by the Authority that will make homes more affordable as workforce housing."

## Utilities

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

Electricity	City of Los Angeles Dept. of Water & Power
Water	City of Los Angeles Dept. of Water & Power
Gas	Southern California Gas Company
Sewer	City of Los Angeles Dept. of Water & Power
Police	City of Los Angeles
Fire	City of Los Angeles

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## **Earthquake, Flood Hazards, and Nuisances**

The subject property is shown on the National Flood Insurance Map Panel No. 06037C1075F, dated September 26, 2008. According to the flood insurance rate map for the City of Los Angeles, the subject property is not located in a HUD flood hazard area. The subject is within Zone D, areas in which flood hazards are undetermined but possible.

According to the California Division of Mines and Geology, several earthquake faults run through the subject property. Portions of the site are also mapped as landslide hazard zones. The subject site is located within 600 feet of a railroad line that carries 12 day-time trains and three night-time trains. This railroad line is west of the I-5 Freeway.

## **Toxic Hazards**

A toxic hazard report was not provided to the appraisers. There are no toxic hazards known to the appraisers on the parcels. However, portions of the site were previously used as a golf course and were treated with fertilizers, herbicides and pesticides.

## **Environmental Issues**

The subject site is not classified as property with historical, archaeological, or scientific value and to the best of our knowledge, is not considered wetlands. Based on the current site condition and map status it appears that the site is suitable for development of the existing and proposed uses. Final tract maps have been recorded, with all grading permits and 176 building permits issued. The property owner has not provided a Phase 1 Environmental Site Assessment Report for the appraisers' review. It is a specific assumption of this appraisal that all environmental concerns have been addressed and mitigated.

## **Assessed Values, Taxes and Special Assessments**

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

# HRA

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. In addition, there are special taxes for CFD No. 8. CFD No. 8 has special taxes ranging from \$1,647 to \$2,542 per unit depending on house size.

The subject property falls within the taxing jurisdiction of the Los Angeles County Assessor's office. The published annual tax rate in this area is 1.1886%. According to the District's Special Tax consultant, current tax rates are just under 2% of the Assessed Values as of January 1, 2009. A survey of the subject's market area revealed that special Assessment Districts or CFDs encumber few of the competing residential projects. However, there does not appear to be a great deal of resistance to special taxes that do not increase the overall tax rate above 2.00% of Assessed Value, in areas of Southern California where Special Taxes are common.

According to the Special Tax consultant, five property owners were delinquent in their property tax payment as of February 16, 2010. This represents a 4.56% delinquency rate. Please refer to the Addenda for a summary of the assessor parcel numbers within the District and the 2009/2010 tax levy.

## **Site Improvements**

As of the date of value, all of Villages 1, 2 and 6 are in a finished site condition. Villages 1, 2 and 6 have completed condominium buildings and units. Village 2 includes 8 completed buildings and units. According to the site plan, four additional buildings are plotted, but are not within the boundaries of CFD No. 8 and therefore not valued in this appraisal assignment. Village 3 was mass-graded in 2007, however, erosion has occurred and significant weed abatement is required. The site is currently considered in a near mass-graded condition requiring grading and infrastructure before vertical construction could begin. According to the developer, there are no plans for development of Village 3 in the near-term.



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The land developer (Cascades) provided a summary of cost to complete for each Village. According to the developer, there are no additional site costs required for Villages 1 and 6. Village 2 has remaining site improvement costs of approximately \$225,000. Village 3 has a reported cost to complete of \$1,500,000 in development costs. The estimated cost for site construction includes a 10% contingency. For this appraisal assignment, the appraisers have estimated a 20% contingency which brings the total development site costs to \$1,636,000. The development site costs are for additional grading, retaining walls, landscape, storm drains, sewer and water improvements, dry utilities and streets. According to the developer, the additional builder in-tract site costs are estimated at \$47,000 per dwelling unit plus a building permit fee of \$13,000 per unit. Assuming build out of 111 dwellings within Village 3, the total site costs, up to vertical construction, are estimated at \$8,296,000 or approximately \$74,000 per dwelling unit.

*It is a specific assumption of this appraisal, that the site costs provided by the developer are all the site costs required to bring the land within CFD No. 8, from its "as is" condition to a finished site, ready to start vertical construction condition for the 111 proposed units within Village 3. If there are any changes in site costs for any Village, the values included in this report could change.*

## IMPROVEMENT DESCRIPTION

### General

The subject CFD is proposed to include 287 attached residential units within 33± net acres. The following table summarizes the proposed floor plans within CFD No. 8 as of the appraisal date. The base sales prices for the Brighton/Fairways and Summerlin/Greens units are the last reported base sales prices and are reportedly the base sales prices for the dwellings currently in escrow as of the date of value. The estimated base sales prices for the new products are as reported in the market study prepared by Robert Charles Lesser and Company, dated February 25, 2010.

As of the date of value, the current incentives offered at the subject are 3% of base sales prices, applied toward closing costs.

Existing Floor Plans						
<u>Plan</u>	<u>Unit Size</u>	<u>Unit Mix</u>	<u>Base Sales Price</u>	<u>Br/Bath</u>	<u>Stories/ Garage</u>	<u>Value /sq. ft.</u>
<b>Brighton/Fairways</b>						
<b>108 Units</b>						
A2	1,092 SF	15	\$267,990	2/2	1 / 1	\$238
A1	1,094 SF	15	\$259,990	2/2	1 / 1	\$245
B1	1,272 SF	15	\$276,990	2/2	2 / 1	\$218
B2	1,297 SF	6	\$267,990	2/2	2 / 1	\$207
D	1,547 SF	15	\$314,990	3/2½	2 / 2	\$204
C	1,696 SF	15	\$324,990	3/2½	2 / 2	\$192
E1	1,997 SF	15	\$334,990	3/2½	2 / 2	\$168
E2, 3	<u>2,024 SF</u>	12	<u>\$334,990</u>	3/2½	2 / 2	<u>\$166</u>
Average	1,505 SF		\$299,323			\$199
<b>Summerlin/Greens</b>						
<b>68 Units</b>						
F1, 2	1,678 SF	16	\$324,990	3/2	2 / 2	\$194
H1	2,021 SF	16	\$344,990	3/2½	2 / 2	\$171
H2, 3, 4	2,030 SF	2	\$344,990	2/2	2 / 1	\$170
G1, 2	2,460 SF	16	\$384,990	4/2½	2 / 2	\$157
J1, 2	2,622 SF	16	\$394,990	4/2½	2 / 2	\$151
J3, 4	<u>2,646 SF</u>	2	<u>\$394,990</u>	4/2½	2 / 2	<u>\$149</u>
Average	2,204 SF		\$362,931			\$165

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In addition to the existing floor plans, three products have been proposed for the build out of Legends at Cascade. The current information is subject to change, but currently envisioned to include a townhome project, stacked flats and detached condominium development. The townhome project is expected to range from 1,250 square feet to 1,800 square feet. Base selling prices are estimated to range between \$278,000 and \$343,000 or \$191 to \$222 per square foot for the townhome project. The stacked flats are estimated to range in size from 1,100 square feet to 1,700 square feet. Base sales prices are estimated to range from \$255,000 to \$325,000 or \$191 to \$232 per square foot. The detached condominiums are expected to range in size from 1,600 square feet to 2,200 square feet. Base selling prices are estimated at \$335,000 to \$409,000. No further information has been provided to the appraisers at this time.

Building specifications have not been provided. We have been provided with floor plans of the existing projects and they have been reviewed. The following is a list of some of the assumed general construction specifications for the attached single-family homes. The individual townhomes within the Brighton/Fairway and Summerlin/Greens projects are built in a variety of 2-plex, 3-plex, 4-plex and 6-plex buildings.

It is an assumption of this appraisal that the build out of Village 3 will be of similar design and quality as the existing units in the District and will meet market demands at market entry.

## **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.

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## **Windows**

White framed aluminum windows with low-e glass.

## **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 wall treatments.

## **Heating/HVAC**

Energy efficient central air conditioning and gas forced air heating.

## **Kitchens**

Kitchens will be equipped with oak cabinets and ceramic tile counter tops. Each kitchen will include a drop-in range and oven, microwave, and dishwasher.

## **Bathrooms**

Master bathrooms will have double sinks with cultured marble countertops and oak cabinets, separate fiberglass shower/tub. Secondary bathrooms will have cultured marble countertops, fiberglass combination tub/shower, and oak cabinets.

## **Doors**

Solid core 8 foot entry door. Garage doors are sectional steel roll-up.

## **Site Improvements**

The production homes include concrete driveways and walkways to the front entry. Front landscaping and irrigation system are included.

## **Options**

Numerous options and upgrades are available and expected to be available for the build-out of Village 3 including flooring, cabinet, and countertop upgrades. Most options and upgrades, found at competing similar quality developments, will be offered.

## **Conclusion of the Improvements**

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

## **Functional Utility**

It appears that all of the floor plans are functional, and competitive with current design standards.

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## **Remaining Economic Life**

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

## **Homeowners Association**

The currently selling projects have both a master HOA and two individual project HOA's. The Master Homeowner's Association for Legends at Cascades is \$228.25 per dwelling unit per month. In addition, the 2- and 4-plex dwellings have homeowner's association dues that range from \$111.92 to \$141.50 per unit, depending on unit size. Similarly, the 3- and 6-plex dwellings have homeowner's association dues that range from \$92.54 to 118.69 per dwelling, depending on unit size. No information has been provided for homeowner associations for the build-out of Village 3. However, for purposes of this appraisal assignment, the appraisers have assumed similar HOAs to those existing within the Legends at Cascades.

## 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. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.<sup>5</sup>

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>6</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.

CFD No. 8 is located in the Sylmar area of the City of Los Angeles. The subject is zoned for residential development. This zone designation allows for attached single-family residential use with a density of 10+ to 12+ units per acre. CFD No. 8 has two recorded final tract maps proposed for 287 dwelling units. All existing and proposed developments are considered legal and conforming uses.

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<sup>5</sup> *The Dictionary of Real Estate Appraisal*, 4th Edition, Pub. by the Appraisal Institute, Chicago, IL, p. 135.

<sup>6</sup> *The Appraisal of Real Estate*, 10th Edition, Pub. by the Appraisal Institute, Chicago, IL, p. 280.

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## **Physically Possible Use**

CFD No. 8 is irregular in shape and contains approximately 171± gross acres according to the District's CFD report. The site has a rolling to steep sloping topography.

The property is generally bounded by residential development to the east, industrial uses to the south, and national forest to the north. Access is considered to be average via Balboa Boulevard, Foothill Boulevard, Yarnell Street and the I-5 and I-210 Freeways.

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 and current site improvements would suggest the lands have a primary use of residential development.

## **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 CFD No. 8.

### **General Market Conditions – Los Angeles County**

The attractiveness of residential development anywhere in Los Angeles County is evidenced by market activity which took place during the 7 to 8 years prior to the current recession. Beginning in 1996/1997 and continuing through 2005, significant price increases occurred and incentives and concessions disappeared. The general consensus was that demand for residential land exceeded supply over the 10± year period. Both land sales and home sales showed annual double-digit appreciation from 1996/1997 through 2005.

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The general thinking is that the extreme slowdown in sales beginning in 2006 was not due to lack of demand, but largely caused by overpriced houses that were not in balance with affordability levels. But, as the downturn has continued, demand has weakened. Currently, homes are not selling unless prices are 30% to 40% below the price levels of 2006-2007. The current national recession has exacerbated the already weakened residential market. Once the prices and costs are brought down to a level that is more effectively supported by economic growth, demand and sales activity is expected to resume.

The current condition of the housing market is that there has been a decline in sales and prices over the past 40± months. During the beginning of the downturn there were significant increases in cancellation rates particularly by investors; significant decreases in sales, significant increases in inventory, rising interest rates and significant decreases in sales prices. Incentives and concessions returned in most markets. First concessions were seen, which were difficult to quantify as most sales agents were often not forthright in this information. It appears that the amount of concessions and/or incentives can vary for a home that may have just fallen out of escrow and is now standing inventory, to homes that may not be ready to close escrow for 3 to 4 months. However, in most markets there were significant price reductions, particularly for projects that just entered the market. The decline in demand for residential homes appears to have started in November 2005. There was a delay in the time it takes for prices to adjust to reduced sales. The slowdown in sales activity appears to have hit both the more affordable markets and the higher end markets. According to sales agents and most builders, incentives, other than price reductions, have not proven very effective in stimulating sales.

There appears to be a belief that a market bottom is occurring and with the current low interest rates, people are deciding its time to buy. While prices may or may not go down more, interest rates are likely to go up during the next 12 months. Still loan availability and refinancing remain more difficult with stringent underwriting standards. It



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appears that the more affordable homes are more active than the more expensive homes.

The builder's confidence in current sales activity and in particular the outlook for sales over the next six months has improved. The general thinking is that the improvement in sales activity is attributed primarily to improved affordability. The new home tax credit is also helpful.

According to Hanley Wood Market Intelligence, the price of a new single family attached home in Los Angeles County decreased 5% between December 2008 and December 2009. The current median price of a new attached home in Los Angeles County is reported to be \$414,200, but the median price is impacted by the high-priced West Los Angeles and Pasadena markets. It is reported that the slight change in median price could be skewed due to the greater percentage of home sales in the upper price ranges. The median attached home price in the sub-market of the San Fernando Valley was reported to be down to \$359,787.

The rate of total sales in Los Angeles County has declined 21.6% between fourth quarter 2008 and fourth quarter 2009, according to Hanley Wood Market Intelligence. This is an overall monthly absorption of 1.3 units per project. The subject's sub-market had one of the highest monthly sales rates at 1.8 units per month, which was up 16.5% from the previous year. The general thinking is that the extreme slowdown in sales was not due to lack of demand, but by overpriced houses. Since the prices have reached a level that is more effectively supported by economic growth, sales activity appears to have returned.

Inventory of available attached homes in the Los Angeles County marketplace has increased over the last 12 months and home prices have been declining. The apparent over priced homes and national recession are considered the main reasons for the slow down in sales and declining prices. In addition, the investor/speculator has disappeared in most markets, which has also hurt demand. We are of the opinion that

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the housing market will slowly continue to improve in Los Angeles County through 2010, similar to many other markets. Prices are no longer depreciating as they did between 2006 and 2009. Prices appear to be stabilizing. It is our opinion that sales activity will continue to be relatively slow throughout the remainder of this year, with momentum improving and to a more normal market during 2011/2012.

Los Angeles County builders sold 686 attached new homes during the fourth quarter of 2009, an 81.5% increase from one year ago. The bulk of the attached homes sold in Los Angeles County during the fourth quarter of 2009 are priced under \$500,000, and comprise 67%± of the total sales. Sales of attached homes priced between \$400,000 and \$600,000 had the most activity, comprising 50%± of the attached market. The number of active attached projects in Los Angeles County decreased by 6 projects during the last quarter. The majority of active attached projects located in Los Angeles County are located in the West Los Angeles/South Bay submarket.

Standing (built, but unsold) attached inventory increased during the fourth quarter of 2009 compared to the fourth quarter of 2008 to 1,761 units in Los Angeles County. At the current sales rate, that is a six-month supply of attached homes. Attached total (built, under construction, planned) unsold inventory consisted of 5,301 units at the end of the fourth quarter of 2009, which is down from 6,708 units last year. At current sales rates, this level of inventory equates to an 18.5-month supply, which is down over 17 months compared to last year. This indicates current sales rates have improved but that future competition could be very strong if the market declines or all of the proposed units are built.

According to an interest rate survey published weekly in The Los Angeles Times, the typical 30-year, fixed rate conforming loan was between 4.87% and 5.25% as of the date of this report. Mortgage rates had been in the 4.50% to 5.75% range over the past year, following more than a year of rates in the 6.00% range. While a slight increase in

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rates may impact demand, we do not anticipate a significant drop in demand as long as rates remain near or below the 8.00% level.

## **Los Angeles – San Fernando Submarket**

CFD No. 8 is situated in the San Fernando submarket region, which accounted for 178 attached home sales during the fourth quarter of 2009, or about a 25.9% market share of the Los Angeles County market. The fourth quarter sales are up from 90 sales the previous year, or a 97.8% increase. The median price in the San Fernando submarket has declined from the fourth quarter of 2008 to \$359,787, a 14.1% decline. Overall, the subject's submarket is a mid-priced submarket in Los Angeles County. However, for attached product, the subject submarket has the lowest price per square foot at \$285.00. The price per square foot in the subject's submarket decreased by 3.6%, and the average size of an attached home decreased by 10.9%.

During the fourth quarter of 2009, the subject's submarket sold 15 new attached homes priced under \$250,000; 48 attached homes priced between \$250,000 and \$299,999 were sold, 3 attached homes priced between \$300,000 and \$349,999 were sold, 46 attached homes priced between \$350,000 and \$399,999 were sold; 57 attached homes priced between \$400,000 and \$499,999 were sold; and 9 homes sold over \$500,000.

Within the San Fernando submarket there are 38 active attached projects, which were 6 less than the beginning of the quarter. The subject's market area reports 192 units of unsold standing (built, but unsold) attached inventory and 251 unsold units are under construction. Only 10% of the County's built, but unsold attached inventory is in the subject's submarket. This inventory is down from 423 units from fourth quarter 2008 standing inventory. This is almost a 6.9-month absorption time for the units built and under construction. Total inventory, which includes units built, under construction and future construction, totals 1,606 units which equates to a 24.7 month supply at the current sales rate. One year ago total inventory was at 1,726 units, and the absorption time based on last year's sales rate was 40 months.

# HRA

## Feasibility

*It is not in the scope of this appraisal assignment for the appraisers to conduct an extensive independent market study/absorption analysis, but it is the appraisers' responsibility to address the reasonableness of the conclusions of any market study which has been prepared by outside firms for the subject property.* Unforeseen national and regional economic and/or social changes will affect the time-frame of real estate development.

In an attempt to arrive at reasonable and supportable absorption schedules for the proposed uses within CFD No. 8, the appraisers reviewed an independently prepared absorption analysis that relates to the entire build-out of the Cascades development. This independent study is titled Highest and Best Mix of Residential Uses for the Cascades Property in Sylmar, CA, prepared by Robert Charles Lesser & Co., dated February 25, 2010.

The study gives two scenarios for the build out of the Legends at Cascade. The study includes not only the 111 dwellings proposed for Village 3 within CFD No. 8, but the remainder of the planned community. Scenario 1 includes the build out of 3 products; stacked flats, townhomes and detached condominiums. The stacked flats would be offered in Phase 2 of development. Scenario 2 includes townhomes and detached condominiums to be offered simultaneously. According to the market study, absorption for the townhomes is estimated to range between 3 and 4 units per month. Absorption for the detached condominiums is also estimated to range between 3 and 4 units per month. The stacked flats are estimated to have a monthly absorption of 4 units per month. It should be noted that this appraisal values merchant builder land, while the market absorption report refers to homebuyers purchasing completed homes.

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 fair to average absorption, similar to that estimated by Robert Charles Lesser & Co., assuming market conditions continue to improve.

# HRA

The table on the following page reports the prices and absorption of seven attached residential developments. Attached absorption has generally ranged from 2.0 units per month to 2.5 units per month. The subject's Brighton/Fairways project is showing the highest absorption at 3.1 units per month. The two detached condo projects have slightly higher absorption rates at 2.7 and 4.4 units per month. Incentives reported at the subject projects are 3% of sales price. Other projects report incentives around \$10,000± per unit.

## **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 RD3-1 zone regulation with the City of Los Angeles are the most productive use that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time. Despite the declining demand for residential product in northerly Los Angeles County and the subject market area, it is our opinion that the development as existing and 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.

## **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 attached for-sale development, similar to the current proposed products, is considered the highest and best use of the property, when normal market conditions resume.

**Sylmar Market Area  
Comparable Residential Project Summary  
Attached Single Family Homes  
April 1, 2010**

<u>No.</u>	<u>Project Location</u>	<u>Total Units</u>	<u>Unit Type</u>	<u>Price Range</u>	<u>Size Range</u>	<u>\$/Sq. Ft. Range</u>	<u>No. Sold Start Dt.</u>	<u>Overall Mo. Abs.</u>
1	<b>Brighton/Fairways</b> KB Home Sylmar	108	Townhome	\$267,990 \$259,990 \$276,990 \$267,990 \$314,990 \$324,990 \$334,990 \$334,990	1,092 1,094 1,272 1,297 1,547 1,696 1,997 2,024	\$245.41 \$237.65 \$217.76 \$206.62 \$203.61 \$191.62 \$167.75 \$165.51	107 May-07	3.1
2	<b>Summerlin/Greens</b> KB Home Sylmar	68	Townhome	\$324,990 \$344,990 \$344,990 \$384,990 \$394,990 \$394,990	1,678 2,021 2,030 2,460 2,622 2,646	\$193.68 \$170.70 \$169.95 \$156.50 \$150.64 \$149.28	68 May-07	2.0
3	<b>Esperto at West Hills</b> Lennar Homes Valencia	182	Townhome	\$320,000 \$295,000 \$330,000 \$350,000 \$355,000	1,233 1,339 1,418 1,611 1,625	\$259.53 \$220.31 \$232.72 \$217.26 \$218.46	96 Apr-07	2.7
4	<b>Artisan at West Hills</b> Lennar Homes Valencia	104	Townhome	\$360,000 \$272,000 \$399,000	1,513 1,664 1,997	\$237.94 \$163.46 \$199.80	15 Jul-09	1.7
5	<b>Las Brisas (Porter Ranch)</b> S & S/Shapell Homes Northridge/Porter Ranch	124	Townhome Gated	\$340,900 \$382,900 \$402,900 \$449,900 \$487,900	1,287 1,249 1,322 1,434 1,641	\$264.88 \$306.57 \$304.77 \$313.74 \$297.32	72 Aug-07	2.2
6	<b>Olive Grove</b> MWH Development Sylmar	41	Detached Condo	\$375,000	2,049	\$183.02	41 Nov-08 S/O Feb-10	2.7
7	<b>Cortile (Porter Ranch)</b> S & S/Shapell Homes Northridge/Porter Ranch	270	Detached Condo Gated	\$407,900 \$385,900 \$427,900 \$476,900	1,188 1,074 1,218 1,374	\$343.35 \$359.31 \$351.31 \$347.09	136 Sep-07	4.4

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## **As Improved**

The proposed uses are a legal use of the land and the value of the land as improved far exceeds the value of the sites if vacant. Based on these considerations, it is our opinion that the existing and 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 are 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 construction costs, financing and profit are deducted. Following the deduction of costs, the residual figure is an estimate of the merchant builder land value.

The Direct Comparison Approach for residential land is used in valuing the fee simple interest, *when sufficient recent comparable sales are available*. 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 which may or may not generate income. The Cost Approach is not an appropriate tool in the valuation of land. The Static Residual is particularly helpful in estimating merchant builder lot value when the end products are known. This analysis reflects current market conditions and is reportedly the most commonly used analysis used by merchant builders when estimating value for a merchant builder parcel.

This appraisal assignment is to provide a Minimum Market Value for the District. To value the completed and sold dwellings, the appraisers will estimate a conservative price per square foot for an average size unit. For the units in escrow, the current base sales price less incentives is used to estimate a Minimum Market Value. An additional deduction from the base sale price is estimated to account for the delay in closing escrows.

## VALUATION OF COMPLETED DWELLING UNITS

### Valuation of Completed and Sold Dwelling Units

As previously discussed, there are 176 completed dwelling units, of which 153 units are sold to individual homeowners as of April 1, 2010. Please refer to the Addenda of this report for a unit by unit summary of each ownership, date of sale, and sales price. Due to the built-out status of this portion of the District, Villages 1, 2 and 6, the appraisers have utilized a mass appraisal technique in the valuation of the completed dwelling units. When implementing a mass appraisal, conservative estimates are to be used in the valuation. It is implicit in mass appraisal that some individual value conclusions will not meet standards of reasonableness, consistency and accuracy. *However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, **on an overall basis**, the value conclusions meet attainable standards of accuracy.* The appraisers have used an average conservative value, for the weighted average size unit within the District. By utilizing average value estimates, individual home values could be higher or lower, depending on unit size. However, on an overall basis, the value conclusions are reasonable and meet attainable standards of accuracy.

The 176 completed dwellings are located within Villages 1, 2 and 6 of CFD No. 8. One hundred fifty-three dwelling units have closed escrow to individual homeowners between December 2007 and the date of value. The 176 dwellings are within two projects as summarized in the Improvement Description section of this report. The projects are essentially sold-out. The current escrow information has also been provided by the merchant builder, KB Home. The appraisers have been provided with a lot by lot summary of floor plans. From this information we have calculated the weighted average for the 156 sold dwellings. The indicated weighted average unit size is 1,731 square feet. To estimate a conservative price per square foot for the average size unit of the projects we have reviewed the average price per square foot for 2007, 2008, 2009 and the first quarter of 2010. Also included is the number of sales that were available for analysis each year and the year's average unit size. The appraisers have

# HRA

utilized the public information available to them for all sales prior to April 1, 2010, as provided by the builder's title company. The average price per square foot of similar projects in an active sales program as illustrated in the Highest and Best Use section of this report were also analyzed. Current incentives in the actively selling tracts were considered as well as the projects absorption rates. Assuming a relatively similar average size dwelling unit, it would be reasonable to expect the 2010 average price per square foot to be below that of the 2009 average price per square foot, and for the 2009 average price per square foot to be below that of the 2008 average price per square foot, and the 2008 average price per square foot to be below that of the 2007 average price per square foot, due to the declining prices over this time frame. It is also important to note, that as a dwelling unit size increases, all else being similar, the price per square foot decreases. Please refer to the following table which summarizes our findings. The last information reflects the total sales within the District as of April 1, 2010.

<b><u>Summary of Subject Sales</u></b>				
<u>Year</u>	<u>No. of Sales</u>	<u>Avg. Size</u>	<u>Avg. S/P</u>	<u>Avg. \$/SF</u>
2007	6	1,420 SF	\$370,916	\$261.27
2008	68	1,730 SF	\$383,294	\$221.52
2009	67	1,739 SF	\$336,604	\$193.61
2010	15	1,823 SF	\$341,133	\$187.08
<i>2007-2010</i>	<i>156</i>	<i>1,731 SF</i>	<i>\$358,712</i>	<i>\$207.24</i>

The actual sales within the subject tract reflect the state of the residential market over the past several years. The limited number of sales in 2007 and the significantly lower average size makes comparison to the following years less meaningful. However, comparing similar size units with a similar number of sales per year reflects a price decline of over 12% from 2008 to 2009. While the average size unit is 100 square feet larger in 2010 compared to that of 2009, the decrease in price paid per square foot,

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indicates a continuing softening in the market. As indicated in the last line of the table, total sales reflect an average size unit of 1,731 square feet and the average price paid per square foot of \$207.24.

Based on the actual sales in the subject tracts, a review of actively selling projects in the general market area of the subject, our knowledge of the current residential market and current projections of the near-term residential market in Los Angeles County, we have estimated a conservative value of \$185.00 per square foot for the average size home. The indicated Minimum Market Value for the average size unit, based on the 156 closed sales is \$320,235, rounded to \$320,000. The indicated Minimum Market Value for the 156 completed and sold dwellings within CFD No. 8 is: \$49,920,000, rounded to \$49,900,000.

**\$320,000 Per Dwelling Unit X 156 DUs = \$49,920,000**

**Rounded to: \$49,900,000**

## **Valuation of Completed but Unsold Dwelling Units**

According to the builder, the current escrows are at the most recent base sales price per floor plan, as summarized in the Improvement Description section of this report. Current incentives are reported to be 3% of the base sales price. The current base prices are lower than previous pricing and sales. Therefore, the current base prices will be given consideration in the Minimum Market Value of the completed, but unsold dwelling units.

A conservative deduction of 10% is used in estimating the Minimum Market Value for the unsold dwellings. This estimate includes the 3% incentives offered at the subject tracts and any potential risk in rising interest rates or market conditions that may impact the time line of the sales. Reportedly, all escrows are expected to close within 2 months of the date of value. Please refer to the next page for a unit by unit summary of the 20 unsold dwellings within CFD No. 8.

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## SUMMARY OF CURRENT ESCROWS

Tract No.	Unit No.	Unit Size	Closing Date	Base S/P	Incentives & Risk	Minimum Market Value
60913-1	4	1,094	Available	\$259,990	-10%	\$233,991
60913-1	15	1,297	Escrow	\$276,990	-10%	\$249,291
60913-1	28	1,678	May 4, 2010	\$324,990	-10%	\$292,491
60913-1	29	2,460	May 4, 2010	\$384,990	-10%	\$346,491
60913-1	30	2,021	May 4, 2010	\$344,990	-10%	\$310,491
60913-1	31	2,622	May 4, 2010	\$394,990	-10%	\$355,491
60913-1	32	1,678	May 4, 2010	\$324,990	-10%	\$292,491
60913-1	33	2,460	May 4, 2010	\$384,990	-10%	\$346,491
60913-1	34	2,030	May 4, 2010	\$344,990	-10%	\$310,491
60913-1	35	2,646	May 4, 2010	\$344,990	-10%	\$310,491
60913-1	121	2,646	April 15, 2010	\$344,990	-10%	\$310,491
60913-1	123	2,460	April 15, 2010	\$384,990	-10%	\$346,491
60913-1	125	2,646	April 15, 2010	\$344,990	-10%	\$310,491
60913-1	126	2,030	April 15, 2010	\$344,990	-10%	\$310,491
60913-1	127	2,460	April 15, 2010	\$384,990	-10%	\$346,491
60913-1	133	2,622	April 20, 2010	\$394,990	-10%	\$355,491
60913-1	134	2,021	April 20, 2010	\$344,990	-10%	\$310,491
60913-1	135	2,460	April 20, 2010	\$384,990	-10%	\$346,491
60913-1	136	1,678	April 20, 2010	\$324,990	-10%	\$292,491
60913-1	138	2,030	April 30, 2010	\$344,990	-10%	\$310,491
Totals:	20	43,039		\$6,986,800		\$6,288,120

Average      2,152                                      \$349,340                                      \$314,406

### TOTAL MINIMUM MARKET VALUE:

\$6,288,120

**Rounded:      \$6,300,000**

AVERAGE MINIMUM MARKET VALUE PER DWELLING UNIT:

\$315,000

AVERAGE MINIMUM MARKET VALUE PER SQUARE FOOT:

\$146.38

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As indicated on the preceding page, the Minimum Market Value for the unsold dwelling units under the ownership of KB Home Greater Los Angeles Inc. is \$6,288,120, rounded to \$6,300,000.

The developer has reported remaining site costs for Village 2 at \$225,000. The remaining costs are for minimal remaining landscaping and completion of sidewalks. These costs have been deducted from the estimated Minimum Market Value for the unsold dwelling units under the merchant builder ownership. Therefore, the estimated Minimum Market Value for the KB Home Greater Los Angeles Inc. ownership is \$6,075,000.

## VALUATION OF NEAR MASS-GRADED LAND

In the previous section of this report, the 176 completed dwelling units have been valued. This section of the report will value the land for the remaining 111 proposed dwelling units within the District. As of the date of value, the 111 dwelling units are proposed for Village 3, which is in a near mass-graded condition. As discussed in the Improvement Description section of this report, the appraisers have only been provided very general information regarding the product for the build-out of the District. This information was prepared by the firm of Robert Charles Lesser & Co. Based on the current market and a review of the actively selling projects in the subject's market area, the proposed townhome product and detached condominium product appear supportable. While the proposed products are allowed under the current zone and approved tentative tract map, only the Brighton/Fairways product has been plotted for the 111 proposed dwelling units. Therefore, for purposes of this appraisal assignment, we have assumed development of the Brighton/Fairways product within Village 3.

Due to the lack of current comparable land sales, the Static Residual Analysis is used to value Village 3 of the District. A site plan has not been submitted to the City for review as of the date of value and a timeline for site and unit development is unknown. Therefore, valuation by the Developmental Analysis is less reliable.

The purpose of this appraisal is to estimate the "as is" bulk value for the land proposed for 111 dwelling units. The infrastructure costs and in-tract site costs to bring the property from its current physical and legal condition to finished site condition are deducted in the Static Residual Analysis. The estimated value is the current "as is" value per proposed dwelling unit in Village 3, assuming development of one product.

### **Static Residual Analysis to "As Is" Site Value**

The purpose of this analysis is to estimate an "as is" site value for the land in its current near-mass graded site condition. This method is particularly helpful when development for a subdivision represents the highest and best use and when competitive

# HRA

house sales are available. Reportedly, this analysis is by far the most commonly used by merchant builders when determining price for land.

This analysis is useful for projects that will have a typical holding period of one to two years which represents the typical holding period sought by merchant builders. The Static Residual Analysis best replicates the investor's analysis when determining what can be paid for the land based on proposed product. Purchase of the land is simply treated as one of the components necessary to build the houses to sell to the homeowner. When all the components of the end-product can be identified and reasonable estimates of costs and profit can be allocated, the Static Residual Analysis becomes the best indicator of value to a merchant builder for a specific product. Specific product information is available, which makes this analysis particularly meaningful.

The analysis uses an estimated average base sales price for a specific product, then deducts the various costs including site costs, direct and indirect costs of construction, marketing, taxes and overhead, as well as the required profit margin to attract an investor in light of the risks and uncertainties of the project. This analysis is most helpful when significant lot and or view premiums are not present. When negotiating land price, builders typically will consider the value of lot premiums when they are significant, but typically do not give the premiums full consideration. When a downturn in the market occurs or a slight stall in a sales program, premiums are typically the first to be negotiated away.

## *End-product Sales Price*

Within the Highest and Best Use section of this report, market demand was discussed. Please refer to the Improvement Description section of this report for a summary of each unit size and base sales price, as currently achieved at the Brighton/Fairways product. The current proposed product for the build-out of CFD No. 8 is within the current demand range. For purposes of this appraisal we have estimated the average size unit and average base sales price for use in the Static Residual



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Analysis. The average size unit is estimated to be 1,502 square feet, and the average base sales price is estimated to be \$297,865.

Given current market conditions, incentives are typically offered at the various subdivisions. Currently the two projects within Cascades are offering 3% off the sales price. This incentive is supported by the market. Therefore, for purposes of the Static Residual Analysis, the net sales price reflects a 3% deduction for incentives.

## *Direct and Indirect Unit Construction Costs*

The direct construction costs have been provided by KB Home for the Brighton product. The appraisers are also aware of current direct construction costs for similar products in Los Angeles and Orange County. For purposes of this analysis, \$75.00 per square foot has been estimated for direct construction costs. Indirect construction costs are estimated at 4% of the retail sales price, which is considered standard in the industry.

## *General and Administrative Costs*

General and administrative costs are estimated at 4% of retail value. This category covers such expenses as administrative, professional fees, real estate taxes, HOA dues, and miscellaneous costs. According to the office of David Taussig & Associates, Inc., special taxes will not be levied on the undeveloped land. This estimate is typical and consistent with the market.

## *Marketing and Warranty Costs*

Marketing and sales expenses plus warranty costs are estimated at 8% of retail value. This category covers such expenses as advertising and sales commissions and home warranties. This estimate is considered supported given current market conditions.

## *Developer Profit*

The line item for profit reflects the required margin to attract an investor in light of the risk and uncertainties of the specific project. This analysis assumes a near mass-graded site condition with no near-term development planned. Therefore, additional risk

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of development is unknown. Given the current residential market, the risk of development is more than in a healthy residential market. The Brighton product is currently selling at an overall rate of 3 units per month. Assuming the product is built, this would indicate a three year holding time, which is longer than the typical holding time sought by merchant builders. In addition there is significant site construction required before unit construction could begin.

Based on surveys of builders, profit requirements are typically between 8% and 12% of revenues, with occasional responses as high as 15%. These profit estimates are for projects that can be constructed and sold out in a two-year period. Higher profits can be required for longer construction/sellout periods and riskier projects. Lower profits can be accepted in inexpensive land cost areas where homes sell quickly. The District is proposed for an attached product with an estimated holding time of approximately 4± years, based on current market conditions. Based on current market conditions and the outlook for the next 12 to 24 months, we have used a 15% line item for profit to estimate value for Village 3.

## *Interest During Holding Period*

A typical allowance for financing during the holding period has been between 5% and 7%. Due to lenders requiring a higher equity participation from builders, an allowance for profit has been decreased. Based on recent interviews with builders in the subject's market area, we have chosen a 5% deduction for financing during the holding period.

## *Site Development Costs*

This analysis residuals to an "as is" value for Village 3. As previously discussed, as of the date of value, approximately \$1,500,000 remain to be spent for site construction to bring the land to a blue-top lot condition. This estimate includes a 10% contingency allowance. For use in this appraisal assignment, the appraisers have estimated a 20% contingency which brings the total estimated site costs to \$1,636,000. *It is a specific assumption and contingency of this appraisal that all developer site costs*

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*to bring the land to a blue-top lot, ready to sell to a merchant builder condition, is included in the \$1,500,000, as provided by Cascades Park Properties, LLC.*

According to the developer, the estimated merchant builder in-tract site costs are \$47,000 per unit. Building permit fee is estimated at \$13,000 per unit. Assuming development of the 111 proposed units, total costs to bring the land from its "as is" condition to a ready to begin vertical construction condition is \$8,296,000 or \$74,739 per dwelling unit.

## **Conclusion of "As Is" Site Value**

Please refer to the following page which illustrates the Static Residual Analysis. As indicated, the "as is" value assuming development of one product similar to the Brighton Townhome product, under current market conditions is negative \$2,500 per proposed unit. The appraisers have allocated No Value to Village 3.

**Village 3  
Brighton Townhome Product  
"As Is" Value per Site**

Plan	Size	Base Price
1	1,094	\$259,990
2	1,092	\$267,990
3	1,272	\$276,990
4	1,297	\$267,990
5	1,547	\$314,990
6	1,696	\$324,990
7	1,997	\$334,990
8	2,024	\$334,990
<b>Average</b>	<b>1,502</b>	<b>\$297,865</b>
<b>Less Concession:</b>		<b><u>(\$8,936)</u></b>
	<b>Say</b>	<b>\$288,929</b>

*111 Proposed Dwelling Units*

Average Retail Value of Improvements	\$288,929	\$192.31 (Per sq. ft.)	Land Ratios
--------------------------------------	-----------	---------------------------	----------------

Average Dwelling Size (Sq. Feet)	1,502	
Direct Building Cost Per Sq. Ft.	\$75.00	\$112,678
Indirect Construction Costs	4.00%	\$11,557
General & Administrative Costs	4.00%	\$11,557
Marketing and Warranty Costs	8.00%	\$23,114
Builder's Profit	15.00%	\$43,339
Interest During Holding Period	5.00%	\$14,446
Costs to bring to Blue-top Lot		\$14,739
In-tract Site Costs		\$47,000
Building Permit		<u>\$13,000</u>
		\$291,432

<b>"As Is" Per Site Value</b>	<b><u>- \$2,503</u></b>
<b>Estimated:</b>	<b>No Value</b>

**Finished Lot 0.25**

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## 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 opinions of Minimum Market Value are formed as of April 1, 2010.

### **Community Facilities District No. 8**

**FIFTY-FIVE MILLION NINE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS**

**\$55,975,000**

**156 Individual Homeowners – \$49,900,000**

**KB Home Greater Los Angeles Inc. - \$6,075,000**

**Cascades Park Properties, LLC – No Value**

## CERTIFICATION

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

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

We have provided appraisal services regarding the subject property within the last three years to our client, the city of Los Angeles.

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

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

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

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

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

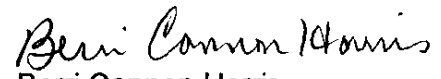
The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

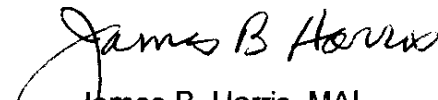
No one provided significant real property appraisal assistance to the persons signing this certificate.

# HRA

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

Respectfully submitted,

  
Berri Cannon Harris  
Vice President  
AG009147

  
James B. Harris, MAI  
President  
AG001846

## **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.

## ***MISCELLANEOUS***

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

## ***LEGAL EXPERIENCE***

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

## ***SCOPE OF EXPERIENCE***

### ***Feasibility and Consultive Studies***

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

### ***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

### ***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

### ***Commercial***

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

### ***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

### ***Vacant Land***

Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.

**QUALIFICATIONS  
OF  
BERRI CANNON HARRIS**

***PROFESSIONAL BACKGROUND***

Actively engaged as a real estate appraiser since 1982. 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.

## ***MISCELLANEOUS***

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

## ***SCOPE OF EXPERIENCE***

### ***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

#### ***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

#### ***Commercial***

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

#### ***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

#### ***Vacant Land***

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

## ***PARTIAL LIST OF CLIENTS***

### ***Lending Institutions***

Bank of America	NationsBank
Bank One	Preferred Bank
Commerce Bank	Santa Monica Bank
Downey S&L Assoc.	Tokai Bank
Fremont Investment and Loan	Union Bank
Institutional Housing Partners	Wells Fargo Bank

### ***Public Agencies***

Army Corps of Engineers	City of Palm Springs
California State University	City of Perris
Caltrans	City of Rialto
City of Adelanto	City of Riverside
City of Aliso Viejo	City of San Marcos
City of Beaumont	City of Tustin
City of Camarillo	City of Victorville
City of Corona	City of Yucaipa
City of Costa Mesa	County of Hawaii
City of Encinitas	County of Orange
City of Fontana	County of Riverside
City of Fullerton	County of San Bernardino
City of Hesperia	Eastern Municipal Water District
City of Honolulu	Orange County Sheriff's Department
City of Huntington Beach	Ramona Municipal Water District
City of Indian Wells	Rancho Santa Fe Comm. Services District
City of Indio	Capistrano Unified School District
City of Irvine	Hemet Unified School District
City of Lake Elsinore	Hesperia Unified School District
City of Loma Linda	Romoland School District
City of Los Angeles	Saddleback Valley Unified School District
City of Moreno Valley	Santa Ana Unified School District
City of Newport Beach	Sulphur Springs School District
City of Oceanside	Val Verde Unified School District
City of Ontario	Yucaipa-Calimesa Unified School District

### ***Law Firms***

Arter & Hadden	McClintock, Weston, Benshoof,
Bronson, Bronson & McKinnon	Rocheftort & MacCuish
Bryan, Cave, McPheeters & McRoberts	Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Richard Clements	Sonnenschein Nath & Rosenthal
Cox, Castle, Nicholson	Strauss & Troy
Gibson, Dunn & Crutcher	Wyman, Bautzer, Rothman, Kuchel &
Hill, Farrer & Burrill	Silbert

## **SITE CONSTRUCTION COST SUMMARY**

**Cascades Park Properties, LLC**  
**Budget Summary - Village 3 - 111 Units**

From Cascades		
Site Grading	\$	485,461
Retaining Walls	\$	38,688
Landscaping	\$	80,027
Storm Drains	\$	188,408
Sewer	\$	49,023
Streets	\$	263,400
Water	\$	146,539
Dry Utility	\$	112,091
10% Contingency	\$	136,364
Total	\$	1,500,000

For Use in the Appraisal		
Site Grading	\$	485,461
Retaining Walls	\$	38,688
Landscaping	\$	80,027
Storm Drains	\$	188,408
Sewer	\$	49,023
Streets	\$	263,400
Water	\$	146,539
Dry Utility	\$	112,091
<b>20% Contingency</b>	<b>\$</b>	<b><u>272,727</u></b>
Total	\$	1,636,364



## **SUMMARY OF PROPERTY TAXES**

SUMMARY OF 2009/2010 PROPERTY TAXES

APN	BLDG	UNIT	SF	PERMIT DAT	09-10 LEVY
2582040060	14	57	1997	9/12/2006	\$2,352
2582040061	14	58	1547	9/12/2006	\$2,135
2582040062	14	59	1272	9/12/2006	\$1,864
2582040063	14	60	1094	9/12/2006	\$1,647
2582040064	14	61	1696	9/12/2006	\$2,189
2582040065	14	62	1092	9/12/2006	\$1,647
2582040014	15	63	1997	9/12/2006	\$2,352
2582040015	15	64	1547	9/12/2006	\$2,135
2582040016	15	65	1272	9/12/2006	\$1,864
2582040017	15	66	1094	9/12/2006	\$1,647
2582040018	15	67	1696	9/12/2006	\$2,189
2582040019	15	68	1092	9/12/2006	\$1,647
2582040020	16	69	1997	9/12/2006	\$2,352
2582040021	16	70	1547	9/12/2006	\$2,135
2582040022	16	71	1272	9/12/2006	\$1,864
2582040023	16	72	1094	9/12/2006	\$1,647
2582040024	16	73	1696	9/12/2006	\$2,189
2582040025	16	74	1092	9/12/2006	\$1,647
2582040026	17	75	1092	9/12/2006	\$1,647
2582040027	17	76	1696	9/12/2006	\$2,189
2582040028	17	77	1094	9/12/2006	\$1,647
2582040029	17	78	1272	9/12/2006	\$1,864
2582040030	17	79	1547	9/12/2006	\$2,135
2582040031	17	80	1997	9/12/2006	\$2,352
2582040066	18	81	1092	9/12/2006	\$1,647
2582040067	18	82	1696	9/12/2006	\$2,189
2582040068	18	83	1094	9/12/2006	\$1,647
2582040069	18	84	1272	9/12/2006	\$1,864
2582040070	18	85	1547	9/12/2006	\$2,135
2582040071	18	86	1997	9/12/2006	\$2,352
2582040034	19	87	1678	11/21/2006	\$2,189
2582040035	19	88	2460	11/21/2006	\$2,482
2582040036	19	89	2021	11/21/2006	\$2,352
2582040037	19	90	2622	11/21/2006	\$2,542
2582040038	20	91	2646	11/21/2006	\$2,542
2582040039	20	92	2030	11/21/2006	\$2,352
2582040040	20	93	2460	11/21/2006	\$2,482
2582040041	20	94	1678	11/21/2006	\$2,189
2582040046	21	95	1678	5/2/2007	\$2,189
2582040047	21	96	2460	5/2/2007	\$2,482
2582040048	21	97	2021	5/2/2007	\$2,352
2582040049	21	98	2622	5/2/2007	\$2,542
2582040050	22	99	1678	5/2/2007	\$2,189
2582040051	22	100	2460	5/2/2007	\$2,482
2582040052	22	101	2021	5/2/2007	\$2,352
2582040053	22	102	2622	5/2/2007	\$2,542
2582040054	23	103	2646	5/2/2007	\$2,542
2582040055	23	104	2030	5/2/2007	\$2,352
2582040056	23	105	2460	5/2/2007	\$2,482
2582040057	23	106	1678	5/2/2007	\$2,189
2603025029	116	147	0	- -	\$0
2603025029	116	148	0	- -	\$0

## SUMMARY OF 2009/2010 PROPERTY TAXES

APN	BLDG	UNIT	SF	PERMIT DAT	09-10 LEVY
2603025029	116	149	0	- -	\$0
2603025029	116	150	0	- -	\$0
2603025029	116	151	0	- -	\$0
2603025029	116	152	0	- -	\$0
2603025029	117	153	0	- -	\$0
2603025029	117	154	0	- -	\$0
2603025029	117	155	0	- -	\$0
2603025029	117	156	0	- -	\$0
2603025029	117	157	0	- -	\$0
2603025029	117	158	0	- -	\$0
2603025029	118	159	0	- -	\$0
2603025029	118	160	0	- -	\$0
2603025029	118	161	0	- -	\$0
2603025029	118	162	0	- -	\$0
2603025029	118	163	0	- -	\$0
2603025029	118	164	0	- -	\$0
2603025029	119	165	0	- -	\$0
2603025029	119	166	0	- -	\$0
2603025029	119	167	0	- -	\$0
2603025029	119	168	0	- -	\$0
2603025029	119	169	0	- -	\$0
2603025029	119	170	0	- -	\$0
2603025029	120	171	0	- -	\$0
2603025029	120	172	0	- -	\$0
2603025029	120	173	0	- -	\$0
2603025029	120	174	0	- -	\$0
2603025029	120	175	0	- -	\$0
2603025029	120	176	0	- -	\$0
2582040008			0	- -	\$0
2582001020			0	- -	\$0
2582040164	1	1	1997	8/4/2006	\$2,352
2582040164	1	2	1547	8/4/2006	\$2,135
2582040164	1	3	1272	8/4/2006	\$1,864
2582040164	1	4	1094	8/4/2006	\$1,647
2582040164	1	5	1696	8/4/2006	\$2,189
2582040164	1	6	1092	8/4/2006	\$1,647
2582040164	2	7	0	- -	\$0
2582040164	2	8	0	- -	\$0
2582040164	2	9	0	- -	\$0
2582040164	2	10	0	- -	\$0
2582040164	2	11	0	- -	\$0
2582040164	2	12	0	- -	\$0
2582040164	3	13	0	- -	\$0
2582040164	3	14	0	- -	\$0
2582040164	3	15	0	- -	\$0
2582040158	4	16	2000	6/2/2008	\$2,352
2582040159	4	17	2000	6/2/2008	\$2,352
2582040160	4	18	1295	6/2/2008	\$1,864
2582040161	5	19	1295	6/2/2008	\$1,864
2582040162	5	20	2000	6/2/2008	\$2,352
2582040163	5	21	2000	6/2/2008	\$2,352
2582040152	6	22	2000	6/2/2008	\$2,352

## SUMMARY OF 2009/2010 PROPERTY TAXES

APN	BLDG	UNIT	SF	PERMIT DAT	09-10 LEVY
2582040153	6	23	2000	6/2/2008	\$2,352
2582040154	6	24	1295	6/2/2008	\$1,864
2582040155	7	25	1295	6/2/2008	\$1,864
2582040156	7	26	2000	6/2/2008	\$2,352
2582040157	7	27	2000	6/2/2008	\$2,352
2582040164	8	28	1678	8/4/2006	\$2,189
2582040164	8	29	2460	8/4/2006	\$2,482
2582040164	8	30	2021	8/4/2006	\$2,352
2582040164	8	31	2622	8/4/2006	\$2,542
2582040164	9	32	0	- -	\$0
2582040164	9	33	0	- -	\$0
2582040164	9	34	0	- -	\$0
2582040164	9	35	0	- -	\$0
2582040084	10	36	1997	11/20/2007	\$2,352
2582040085	10	37	1547	11/20/2007	\$2,135
2582040086	10	38	1272	11/20/2007	\$1,864
2582040087	10	39	1094	11/20/2007	\$1,647
2582040088	10	40	1696	11/20/2007	\$2,189
2582040089	10	41	1092	11/20/2007	\$1,647
2582040090	11	42	1092	11/20/2007	\$1,647
2582040091	11	43	1696	11/20/2007	\$2,189
2582040092	11	44	1094	11/20/2007	\$1,647
2582040093	11	45	1272	11/20/2007	\$1,864
2582040094	11	46	1547	11/20/2007	\$2,135
2582040095	11	47	1997	11/20/2007	\$2,352
2582040104	12	48	1092	12/20/2007	\$1,647
2582040105	12	49	1696	12/20/2007	\$2,189
2582040106	12	50	1094	12/20/2007	\$1,647
2582040107	12	51	1272	12/20/2007	\$1,864
2582040108	12	52	1547	12/20/2007	\$2,135
2582040109	12	53	1997	12/20/2007	\$2,352
2582040110	13	54	1297	12/20/2007	\$1,864
2582040111	13	55	2024	12/20/2007	\$2,352
2582040112	13	56	2024	12/20/2007	\$2,352
2582040074	25	107	2646	12/20/2007	\$2,542
2582040075	25	108	2030	12/20/2007	\$2,352
2582040076	25	109	2622	12/20/2007	\$2,542
2582040077	25	110	2021	12/20/2007	\$2,352
2582040078	25	111	2460	12/20/2007	\$2,482
2582040079	25	112	1678	12/20/2007	\$2,189
2582040080	26	113	1678	12/20/2007	\$2,189
2582040081	26	114	2460	12/20/2007	\$2,482
2582040082	26	115	2030	12/20/2007	\$2,352
2582040083	26	116	2646	12/20/2007	\$2,542
2582040125	27	117	0	- -	\$0
2582040126	27	118	0	- -	\$0
2582040127	27	119	0	- -	\$0
2582040128	27	120	0	- -	\$0
2582040140	28	121	0	- -	\$0
2582040141	28	122	0	- -	\$0
2582040142	28	123	0	- -	\$0
2582040143	28	124	0	- -	\$0

## SUMMARY OF 2009/2010 PROPERTY TAXES

APN	BLDG	UNIT	SF	PERMIT DAT	09-10 LEVY
2582040144	29	125	0	- -	\$0
2582040145	29	126	0	- -	\$0
2582040146	29	127	0	- -	\$0
2582040147	29	128	0	- -	\$0
2582040129	30	129	0	- -	\$0
2582040130	30	130	0	- -	\$0
2582040131	30	131	0	- -	\$0
2582040132	30	132	0	- -	\$0
2582040148	31	133	0	- -	\$0
2582040149	31	134	0	- -	\$0
2582040150	31	135	0	- -	\$0
2582040151	31	136	0	- -	\$0
2582040133	32	137	0	- -	\$0
2582040134	32	138	0	- -	\$0
2582040135	32	139	0	- -	\$0
2582040136	32	140	0	- -	\$0
2582040098	122	141	0	- -	\$0
2582040099	122	142	0	- -	\$0
2582040100	122	143	0	- -	\$0
2582040101	122	144	0	- -	\$0
2582040102	123	145	0	- -	\$0
2582040103	123	146	0	- -	\$0

## **SUMMARY OF SOLD DWELLING UNITS**

# Summary of Sold Dwellings as of April 1, 2010

Tract No.	Unit No.	Buyer	Sales Price	Sale Date
60913-1	1	Thomas & Vargas	\$380,000	12/7/2009
60913-1	2	Mendoza	\$345,000	11/30/2009
60913-1	3	Pena & Gibson	\$300,000	12/1/2009
60913-1	4	N/A		
60913-1	5	Maleeh	\$360,000	11/25/2009
60913-1	6	Chavalas	\$286,000	11/25/2009
60913-1	7	Obispo	\$282,500	1/29/2010
60913-1	8	Bacarro	\$337,500	1/21/2010
60913-1	9	Costa	\$260,000	2/19/2010
60913-1	10	Viscarra	\$287,500	1/29/2010
60913-1	11	Holmes	\$342,500	2/2/2010
60913-1	12	Gonzalez	\$367,000	1/27/2010
60913-1	13	McDow	\$363,500	1/25/2010
60913-1	14	Ahn	\$347,000	1/26/2010
60913-1	15	N/A		
60913-1	16	Djiguerian	\$343,000	4/2/2009
60913-1	17	Asavis	\$352,500	4/16/2009
60913-1	18	Owen & Suomi	\$315,000	3/31/2009
60913-1	19	Soriano & Hernandez	\$276,000	5/15/2009
60913-1	20	Guner	\$346,000	3/26/2009
60913-1	21	Metcalf	\$331,500	3/31/2009
60913-1	22	Soll	\$370,000	3/24/2009
60913-1	23	Smolje	\$351,500	4/7/2009
60913-1	24	Carr	\$277,500	5/8/2009
60913-1	25	Konkoli	\$279,500	5/8/2009
60913-1	26	Byrne	\$348,500	3/23/2009
60913-1	27	Stark	\$339,000	4/28/2009
60913-1	28	N/A		
60913-1	29	N/A		
60913-1	30	N/A		
60913-1	31	N/A		
60913-1	32	N/A		
60913-1	33	N/A		
60913-1	34	N/A		
60913-1	35	N/A		
60913-1	36	Rieck & Montano	\$349,000	11/21/2008
60913-1	37	Kim	\$330,000	11/12/2008
60913-1	38	Bertan & Ibrahim	\$318,000	11/4/2008
60913-1	39	Panella	\$314,000	10/31/2008
60913-1	40	Arana	\$373,000	11/3/2008
60913-1	41	Mittmann	\$311,000	10/31/2008
60913-1	42	Yauger	\$317,000	8/27/2008
60913-1	43	Leafdale	\$375,000	10/7/2008
60913-1	44	Tewari	\$346,500	9/18/2008
60913-1	45	Knab	\$330,000	8/26/2008
60913-1	46	DeMoss & Adams	\$392,000	8/29/2008
60913-1	47	Camposano	\$395,909	8/27/2008
60913-1	48	Carr	\$318,500	12/15/2008
60913-1	49	Ramos & Torrero	\$367,000	12/15/2008
60913-1	50	Aquino & Aligno	\$304,500	12/19/2008

# Summary of Sold Dwellings as of April 1, 2010

Tract No.	Unit No.	Buyer	Sales Price	Sale Date
60913-1	51	Johnston	\$325,000	12/11/2008
60913-1	52	Hinh	\$336,500	12/29/2008
60913-1	53	Cortina	\$340,000	3/2/2009
60913-1	54	Tamura & Villianueva	\$323,000	12/16/2008
60913-1	55	Lechadores	\$383,000	12/24/2008
60913-1	56	Mitchel	\$348,500	12/22/2008
60913-1	57	Quezada	\$395,000	8/29/2008
60913-1	58	Ferrer	\$392,909	7/30/2008
60913-1	59	Cowan	\$330,000	7/31/2008
60913-1	60	Morgan	\$304,500	7/28/2008
60913-1	61	Vazquez	\$420,000	8/15/2008
60913-1	62	Bear	\$325,500	7/25/2008
60913-1	63	Levis	\$454,000	12/31/2007
60913-1	64	Avalos	\$373,000	12/31/2007
60913-1	65	Owen	\$381,500	2/4/2008
60913-1	66	Azuela	\$328,000	1/2/2008
60913-1	67	Oh	\$369,500	1/30/2008
60913-1	68	Saenz	\$345,000	12/28/2007
60913-1	69	Tiro	\$420,000	4/22/2008
60913-1	70	Hintlian	\$371,000	2/1/2008
60913-1	71	Han	\$361,500	1/17/2008
60913-1	72	Ramirez	\$310,000	12/28/2007
60913-1	73	Paloma	\$404,500	12/31/2007
60913-1	74	Kurtz	\$339,000	12/31/2007
60913-1	75	Owen	\$345,000	1/23/2008
60913-1	76	Beltran	\$385,000	1/28/2008
60913-1	77	Flores	\$341,000	1/30/2008
60913-1	78	Luker	\$368,000	1/24/2008
60913-1	79	Gates	\$410,500	1/24/2008
60913-1	80	Bringuier	\$380,000	5/22/2008
60913-1	81	Bae	\$346,000	2/1/2008
60913-1	82	Alletto	\$367,000	1/30/2008
60913-1	83	Sill	\$291,000	5/30/2008
60913-1	84	Andersson	\$371,000	2/8/2008
60913-1	85	Panasiti	\$419,500	2/4/2008
60913-1	86	Meadows	\$415,500	1/31/2008
60913-1	87	Pisarnwongs	\$400,000	2/28/2008
60913-1	88	Flores	\$329,000	1/28/2008
60913-1	89	Abeskharoun	\$460,500	1/10/2008
60913-1	90	Fabery	\$516,000	1/15/2008
60913-1	91	Joo	\$508,000	1/2/2008
60913-1	92	Kardani	\$440,000	2/14/2008
60913-1	93	Michaeli	\$482,000	1/9/2008
60913-1	94	Chaja	\$382,000	7/7/2008
60913-1	95	Pannu	\$347,000	5/16/2008
60913-1	96	Lamine	\$440,000	8/20/2008
60913-1	97	Lee	\$471,500	2/13/2008
60913-1	98	Yi	\$405,000	10/31/2008
60913-B	99	Campbell	\$385,000	6/19/2008
60913-B	100	Ellis	\$400,000	12/31/2008



# Summary of Sold Dwellings as of April 1, 2010

Tract No.	Unit No.	Buyer	Sales Price	Sale Date
60913-B	101	Allen	\$450,500	3/26/2008
60913-B	102	Shpiro & Lang	\$533,636	2/26/2008
60913-B	103	Kumar	\$521,545	2/5/2008
60913-B	104	Vazquez	\$423,500	6/2/2008
60913-B	105	Whitaker	\$450,000	4/23/2008
60913-B	106	Cruz	\$331,000	1/27/2009
60913-1	107	Norwood	\$491,000	3/19/2009
60913-1	108	Bader	\$405,500	10/31/2008
60913-1	109	Johnson	\$410,000	1/9/2009
60913-1	110	Clemente	\$365,000	3/2/2009
60913-1	111	Mullich	\$402,091	1/21/2009
60913-1	112	Downs	\$375,500	10/27/2008
60913-1	113	Thomas	\$356,500	12/31/2008
60913-1	114	Sanchez	\$450,000	10/27/2008
60913-1	115	Malysheva	\$428,500	1/16/2009
60913-1	116	Kumar	\$435,000	11/25/2008
60913-1	117	Martinez	\$329,500	11/16/2009
60913-1	118	Almanza	\$373,500	3/3/2010
60913-1	119	Gluliano	\$375,000	11/13/2009
60913-1	120	Mason	\$420,000	11/12/2009
60913-1	121	N/A		
60913-1	122	Bautista	\$350,000	3/31/2010
60913-1	123	N/A		
60913-1	124	Cabatingan	\$332,500	3/31/2010
60913-1	125	N/A		
60913-1	126	N/A		
60913-1	127	N/A		
60913-1	128	Salazar	\$335,500	3/24/2010
60913-1	129	Noboa	\$415,000	1/12/2010
60913-1	130	Ko & Tanganco	\$368,000	11/12/2009
60913-1	131	Manrique	\$394,000	11/25/2009
60913-1	132	Park & Lee	\$347,000	1/29/2010
60913-1	133	N/A		
60913-1	134	N/A		
60913-1	135	N/A		
60913-1	136	N/A		
60913-1	137	Qayum	\$407,000	10/30/2009
60913-1	138	N/A		
60913-1	139	Smith & Dunning	\$376,000	2/18/2010
60913-1	140	Tiu & Adalla	\$331,500	11/25/2009
60913-1	141	Denison & Saenz	\$339,500	10/20/2009
60913-1	142	Downey & Floback	\$420,000	10/30/2009
60913-1	143	Dept. of Veterans Affairs	\$352,500	10/20/2009
60913-1	144	Zambrano	\$412,000	11/3/2009
60913-1	145	Lago-Culp	\$433,000	12/2/2009
60913-1	146	Albiston	\$374,500	11/9/2009
60913-1	147	Deleon	\$282,500	12/2/2009
60913-1	148	Ahn	\$340,000	11/17/2009
60913-1	149	McCracken	\$276,500	11/18/2009
60913-1	150	Ongpin & Quiza	\$298,000	11/18/2009

# Summary of Sold Dwellings as of April 1, 2010

Tract No.	Unit No.	Buyer	Sales Price	Sale Date
60913-1	151	Pacis & Mendoza	\$318,000	11/25/2009
60913-1	152	Nava	\$361,000	11/25/2009
60913-1	153	Palma & Farias	\$352,500	10/18/2009
60913-1	154	Svidler	\$323,000	10/28/2009
60913-1	155	Williams	\$291,500	10/30/2009
60913-1	156	Fernandez	\$263,500	11/4/2009
60913-1	157	Holmes-Corry	\$333,500	11/2/2009
60913-1	158	Flores	\$282,000	11/4/2009
60913-1	159	Sheridan & Sanchez	\$352,000	10/30/2009
60913-1	160	Feraren	\$334,500	10/29/2009
60913-1	161	Legarde	\$306,500	10/29/2009
60913-1	162	Vazquez	\$264,000	11/10/2009
60913-1	163	Scarabin	\$344,500	10/27/2009
60913-1	164	Bolosan	\$271,500	10/29/2009
60913-1	165	Gershon	\$276,000	10/16/2009
60913-1	166	Ang	\$333,500	12/17/2009
60913-1	167	Allen	\$276,000	11/12/2009
60913-1	168	Oppermann	\$282,000	10/13/2009
60913-1	169	Chon	\$335,000	12/4/2009
60913-1	170	Mendoza	\$341,500	10/23/2009
60913-1	171	Arreza	\$380,000	9/30/2009
60913-1	172	Chau & Beck	\$336,000	9/29/2009
60913-1	173	Reuschel	\$295,000	9/25/2009
60913-1	174	Ceja & Lopez-Ceja	\$273,500	10/13/2009
60913-1	175	Hadfield	\$323,500	9/30/2009
60913-1	176	Johnson	\$271,500	9/23/2009

**156**

**\$56,050,091 Total Sales Price**

**156 Sold Dwelling Units:**

**\$359,295 S/P Per Dwelling**

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**APPENDIX B-1**

**UPDATE APPRAISAL**

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**SUMMARY APPRAISAL REPORT**

**CITY OF LOS ANGELES  
COMMUNITY FACILITIES DISTRICT NO. 8  
LEGENDS AT CASCADES**

Prepared for:

**CITY OF LOS ANGELES  
200 N. Main Street, Room 1500  
Los Angeles, CA 90012**

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

September 2010

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# Harris Realty Appraisal

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

September 15, 2010

Ms. Natalie R. Brill  
Chief of Debt Management  
CITY OF LOS ANGELES  
200 N. Main Street, Room 1500  
Los Angeles, CA 90012

Re: **CFD No. 8**  
***Legends at Cascades***

Dear Ms. Brill:

In response to your authorization, we have prepared a summary appraisal report that must be read in conjunction with the self-contained appraisal report with an April 1, 2010 date of value. This summary report has a September 15, 2010 date of value, and will provide sufficient information to state that if the property were to be appraised as of that date, the value would *Not Be Less Than* that reported as of April 1, 2010. The summary appraisal report and the self-contained appraisal report address all of the taxable property within the boundaries of the City of Los Angeles Community Facilities District No. 8 (CFD No. 8). The self-contained appraisal report included an estimate of the Minimum Market Value of the land and improvements subject to special tax as of April 1, 2010. At that time, the land was under the ownerships of KB Home Greater Los Angeles Inc., Cascades Park Properties, LLC and 156 individual homeowners. As of September 15, 2010, an additional 20 dwellings have sold and closed escrow to individual homeowners. KB Home Greater Los Angeles Inc. no longer has an ownership interest in CFD No. 8.

In the case of this specific assignment, this summary appraisal report is intended to be used in conjunction with the self-contained appraisal report. In lieu of revaluing the property with a self-contained appraisal report, this summary appraisal report is intended to provide a *Not Less Than Value* as of September 15, 2010. We have advised the client and the finance team by telephone conference calls that a summary appraisal report will be prepared to provide a *Not Less Than Value*. Our client, the City of Los Angeles, its financial advisor, underwriter and underwriter's counsel have agreed that a summary appraisal report is sufficient.

This summary appraisal report will briefly address significant conditions that have occurred since the original date of value, April 1, 2010. This report is intended to include sufficient information to conclude that if the property were to be revalued as of September 15, 2010, the value would *Not Be Less Than* the value estimate as of April 1, 2010.



**Client**

The client is the City of Los Angeles.

**Purpose of the Report**

The purpose of this summary appraisal report is to re-analyze the market, subject property and site construction within the subject CFD that has occurred since the original report dated April 1, 2010. This report is intended to determine if the property were to be re-appraised as of September 15, 2010, the value estimate for Community Facilities District No. 8 (CFD No. 8) would have a *Not Less Than Value* of the Minimum Market Value estimate included in the self-contained appraisal report as of April 1, 2010. The opinions set forth are subject to the assumptions and limiting conditions and the specific appraisal guidelines as set forth by CDIAC.

**Function of the Report and Intended Use**

It is our understanding that this appraisal report is to be used for Community Facilities District No. 8 (Legends at Cascade) of the City of Los Angeles bond financing purposes only. The subject property is described more particularly within the self-contained appraisal report. The bonds are issued pursuant to the Mello-Roos Community Facilities District Act of 1982. The maximum bond indebtedness for CFD No. 8 is \$10,000,000.

**Intended Users of the Report**

It is our understanding that this summary appraisal report, in conjunction with the self-contained appraisal report, will be used by our client, the City of Los Angeles, its financial advisor, underwriter, legal counsel, consultants, and potential bond purchasers.

**Scope of the Assignment**

The scope of this assignment encompasses the necessary research and analysis required for the intended use. This *Not Less Than Value* summary report analyzes conditions that have changed since the date of value of the self-contained appraisal report. Generally, this summary appraisal report involved a review of current economic conditions, a review of sales activity in the subject's market area, site construction, building construction and home sales activity since last reported, and arriving at a *Not Less Than Value* conclusion.

**Date of Not Less Than Value**

The opinion of *Not Less Than Value* expressed in this report is stated as of September 15, 2010.

**Date of Report**

The date of the summary appraisal report is September 15, 2010.

### **Property Rights Appraised**

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

### **Property Identification**

The subject property consists of land under site construction in the City of Los Angeles. According to the City's Special Tax Consultant, the taxable portion of CFD No. 8 is identified as Parcels 1 and 2 of LLA No. 2007-1009 of Lots 1 and 2, Tract No. 60913-1 and Lot 1 of Tract No. 60913-2. CFD No. 8 contains 171± gross acres, with 33± net acres proposed for 287 dwelling units. Please refer to the CFD boundary maps within the self-contained appraisal report on pages 4, 5 and 6.

The District has recently sold-out product of two townhome projects known as Brighton/Fairways and Summerlin/Greens, within Villages 1, 2 and 6. Village 3 is near mass-graded land currently entitled for 111 condominium dwelling units.

### **Legal Description and Ownership**

Village 1 -	116 Individual Homeowners Units 1 – 116 ; Lot 1 Tract No. 60913-1
Village 2 -	30 Individual Homeowners Units 117 - 146; Lot 1 Tract No. 60913-1
Village 3 -	Cascades Park Properties, LLC Proposed for 111 condominium units Lot 2 Tract No. 60913-1
Village 6 -	30 Individual Homeowners Units 147 through 176; Lot 1 Tract No. 60913-2

### **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:

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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.

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

#### **Minimum Market Value**

It may be appropriate for projects that have built-out and occupied product to use mass appraisal techniques, *utilizing conservative per dwelling unit estimates*. When conforming groups of property types within the same CFD are built and have achieved a stabilized occupancy, appraisers may use a limited valuation to value a sampling of similar properties. The value conclusions reached, render an overall conservative value estimate, or Minimum Market Value for the tract.

#### **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 Minimum Market Value included herein, reflects the value potential buyers would consider given the special tax lien of Community Facilities District No. 8.

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

### **Bulk Sale Value<sup>3</sup>**

Bulk sale value should be estimated for all vacant properties--both unimproved properties and improved or partially improved but unoccupied properties. Bulk sale value is derived by discounting retail values to present value by an appropriate discount rate, through a procedure called *Discounted Cash Flow Analysis*. A second method is to use bulk land sales. These are sales of numerous individual parcels sold to one buyer. Bulk sale value is defined as follows:

The most probable price, in a sale of *all* parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

### **Mass Appraisal**

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

### **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.

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<sup>3</sup> *Appraisals Standard for Land-Secured Financings*, published by CDIAC, 1004, Page 10

**Super Pad Parcel**

Pad graded parcel includes interior streets cut and padded lots with utilities stubbed to the parcel and perimeter streets complete.

**Finished Parcel<sup>4</sup>**

Land that is improved so that it is ready to be used for a specific purpose. (Improvements include padded site, streets and utilities to the site, 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 in.

**Contingencies, Assumptions and Limiting Conditions**

The analyses and opinions set forth in this report are subject to the same contingencies, assumptions and limiting conditions set forth in the self-contained appraisal report on pages 11 through 15.

Standards Rule ("S.R.") 2-1(c) of the "Standards of Professional Appraisal Practice" of the Appraisal Institute requires the appraiser 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**

This is a summary appraisal report intended to be used in conjunction with the self-contained appraisal report dated April 2, 2010 with a date of value of April 1, 2010.

**Assumptions and Limiting Conditions of the Appraisal**

Refer to pages 11 through 17 of the self-contained appraisal report for a list of the specific Assumptions and Limiting Conditions of the Appraisals.

***Consent is hereby given for this report, in its entirety, to be published in the Preliminary Official Statement and Official Statement along with the self-contained appraisal report in conjunction with the funding of bonds for CFD No. 8 for the City of Los Angeles.***

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<sup>4</sup> Ibid, Page 334

### **Highest and Best Use**

The term *highest and best use* is an appraisal concept which 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. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.<sup>5</sup>

Please refer to pages 55 through 64 in the self-contained appraisal report, which describe, in detail, the process of determining the highest and best use of the property. There have not been any significant changes to the conclusions reached in the Highest and Best Use section of the self-contained appraisal report. In the case of the subject properties, of the 20 homes that were in escrow as of April 1, 2010, all 20 homes have closed escrow over the past 5½ months.

According to the Hanley Wood Market Intelligence, the price of a new single family attached home in Los Angeles County increased slightly by 1.3%, year over year, during the second quarter of 2010 compared to the second quarter of 2009. However, the median price of a new attached home in the subject's submarket of the San Fernando Valley was up 25.5% to \$414,178 from one year ago.

Inventory of available attached homes in the Los Angeles County marketplace has decreased over the last 12 months and home prices have increased. Los Angeles County builders sold 523 attached new homes during the second quarter of 2010, a 53.3% decrease from one year ago. This is an overall monthly absorption of 1.4 units per project. The subject's submarket had the highest monthly sales rates at 2.4 units per month, which was down 13.0% from the previous year. The bulk of the attached homes sold in Los Angeles County during the second quarter of 2010 are priced between \$300,000 and \$800,000, and comprise over 90% of the total sales. Sales of attached homes priced between \$400,000 and \$800,000 had the most activity, comprising 62%± of the attached market. The number of active attached projects in Los Angeles County decreased by 15 projects during the second quarter of 2010.

Standing (built, but unsold) attached inventory decreased during the first six months of 2010 compared to the first six months of 2009 to 1,544 units in Los Angeles County. At the current sales rate, that is a 6.6-month supply of attached homes. Attached total (built, under construction, planned) unsold inventory consisted of 4,929 units as of June 2010, which is down from 5,793 units as of June of 2009. At the current sales rate, this inventory equates to a 21.1-month supply, which is down from 26.2-months compared to last year. This indicates current sales rates have improved.

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<sup>5</sup> *The Dictionary of Real Estate Appraisal*, 4th Edition, Pub. by the Appraisal Institute, Chicago, IL., p. 135.

### **Los Angeles – San Fernando Submarket**

CFD No. 8 is situated in the San Fernando submarket region, which accounted for 204 attached home sales during the second quarter of 2010, or about a 39.0% market share of the Los Angeles County market. The second quarter sales are down from 214 sales the previous year, or a 4.7% decrease. The median price in the San Fernando submarket has increased from the second quarter of 2009 to \$414,178, a 25.5% increase. Overall, the subject's submarket is a mid-priced submarket in Los Angeles County.

During the second quarter of 2010, the subject's submarket sold no new attached homes priced under \$299,999, 76 attached homes priced between \$300,000 and \$349,999 were sold, 28 attached homes priced between \$350,000 and \$399,999 were sold, 47 attached homes priced between \$400,000 and \$499,999 were sold, 48 attached homes priced between \$500,000 and \$599,999 were sold and 5 homes sold over \$600,000.

Within the San Fernando submarket there are 28 active attached projects, which was four less than the beginning of the quarter. The subject's market area reports 161 units of standing (built, but unsold) attached inventory and 161 unsold units are under construction. Only 10.4% of the County's built, but unsold attached inventory is in the subject's submarket. This inventory is up from 127 units reported in the second quarter 2009 as standing inventory. This is a 5.0-month absorption time for the units built and under construction. Total inventory, which includes units built, under construction and future construction, totals 701 units which equates to a 10.8 month supply at the current sales rate. One year ago total inventory was at 1,015 units, and the absorption time based on last year's sales rate was 24.0 months. This indicates a significant faster absorption from the prior year.

Reportedly, the median price of a condominium home in Los Angeles County has stayed relatively similar over the past several months. However, prices were higher than the same time last year. The data for the County's housing market has shown fairly steady year-over-year sales for almost two years.

There are no new subdivisions in the subject's market area. A recent survey of the subdivisions summarized on page 63 of the self-contained appraisal report, indicates prices have generally remained the same and sales volume has been limited.

### **Not Less Than Value**

#### **Completed Dwelling Units/Villages 1, 2 and 6**

Please refer to pages 67 through 71 of the self-contained appraisal report for the Valuation section of the completed dwelling units within the District. The following paragraphs will briefly describe the status of the units in escrow as of the original date

of value, April 1, 2010 and the current date of the *Not Less Than Value*, September 15, 2010.

As discussed in the original appraisal report, there were 176 completed dwelling units within Villages 1, 2 and 6, of which 156 units were sold to individual homeowners as of April 1, 2010. As of April 1, 2010, 20 dwelling units were in escrow and scheduled to close in April and May 2010. Please refer to the Addenda of the self-contained appraisal report for a unit by unit summary for each ownership, date of sale and sales price. Due to the built-out status of this portion of the District, Villages 1, 2 and 6, the appraisers utilized a mass appraisal technique in the valuation of the completed dwelling units. When implementing a mass appraisal, conservative estimates are to be used in the valuation. It is implicit in mass appraisal that some individual value conclusions will not meet standards of reasonableness, consistency and accuracy. *However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, the value conclusions meet attainable standards of accuracy.* The appraisers have used an average conservative value, for the weighted average size unit within the District. By utilizing average value estimates, individual home values could be higher or lower, depending on unit size. However, on an overall basis, the value conclusions are reasonable and meet attainable standards of accuracy.

All of the 20 units in escrow as of April 1, 2010 have closed escrow over the past 5½ months. Please refer to the next page for a summary of the units in escrow as of April 1, 2010 and updated information on each sale as of September 15, 2010. In all instances, the sales price is greater than the Minimum Market Value estimated as of April 1, 2010 by over 16%.

Based on the actual sales in the subject tracts, the 20 escrows that have closed escrow over the past 5½ months, a review of actively selling projects in the general market area of the subject, our knowledge of the current residential market and current projections of the near-term residential market in Los Angeles County, we have concluded that if the 156 sold dwelling units were to be re-appraised as of September 15, 2010, they would have a value that was *Not Less Than* the estimated Minimum Market Value as of April 1, 2010; \$49,920,000. Similarly, the appraisers have concluded that if the 20 units in escrow as of April 1, 2010, were to be re-appraised as of September 15, 2010, they would have a value that was *Not Less Than* the estimated Minimum Market Value as of April 1, 2010; \$6,300,000, less \$225,000 for remaining site costs; \$6,075,000. The developer reported remaining site costs for Village 2 at \$225,000, as of April 1, 2010. The remaining costs were for minimal remaining landscaping and completion of sidewalks. According to a recent interview with the developer, the costs to complete have not changed.



# SUMMARY OF ESCROWS AS OF 4/1/10

Tract No.	Unit No.	Unit Size	Closing Date	Base S/P	Incentives & Risk	Minimum Market Value
60913-1	4	1,094	Available	\$259,990	-10%	\$233,991
60913-1	15	1,297	Escrow	\$276,990	-10%	\$249,291
60913-1	28	1,678	May 4, 2010	\$324,990	-10%	\$292,491
60913-1	29	2,460	May 4, 2010	\$384,990	-10%	\$346,491
60913-1	30	2,021	May 4, 2010	\$344,990	-10%	\$310,491
60913-1	31	2,622	May 4, 2010	\$394,990	-10%	\$355,491
60913-1	32	1,678	May 4, 2010	\$324,990	-10%	\$292,491
60913-1	33	2,460	May 4, 2010	\$384,990	-10%	\$346,491
60913-1	34	2,030	May 4, 2010	\$344,990	-10%	\$310,491
60913-1	35	2,646	May 4, 2010	\$344,990	-10%	\$310,491
60913-1	121	2,646	April 15, 2010	\$344,990	-10%	\$310,491
60913-1	123	2,460	April 15, 2010	\$384,990	-10%	\$346,491
60913-1	125	2,646	April 15, 2010	\$344,990	-10%	\$310,491
60913-1	126	2,030	April 15, 2010	\$344,990	-10%	\$310,491
60913-1	127	2,460	April 15, 2010	\$384,990	-10%	\$346,491
60913-1	133	2,622	April 20, 2010	\$394,990	-10%	\$355,491
60913-1	134	2,021	April 20, 2010	\$344,990	-10%	\$310,491
60913-1	135	2,460	April 20, 2010	\$384,990	-10%	\$346,491
60913-1	136	1,678	April 20, 2010	\$324,990	-10%	\$292,491
60913-1	138	2,030	April 30, 2010	\$344,990	-10%	\$310,491
Totals:	20	43,039		\$6,986,800		\$6,288,120

Average 2,152 \$349,340 \$314,406

**TOTAL MINIMUM MARKET VALUE:** \$6,288,120

**Rounded:** \$6,300,000

AVERAGE MINIMUM MARKET VALUE PER DWELLING UNIT: \$315,000

AVERAGE MINIMUM MARKET VALUE PER SQUARE FOOT: \$146.38

# SUMMARY OF SALES AS OF 9/15/10

Date Closed	Sales Price	Buyer
5/6/2010	\$273,000	Velasco
5/5/2010	\$276,000	Davies and Dottore
5/12/2010	\$330,000	Awdish
5/16/2010	\$390,000	Lee
5/11/2010	\$370,000	Guerra
5/6/2010	\$437,000	Pirabadian
7/12/2010	\$330,000	Luna & Greco
5/14/2010	\$375,000	Gallegos
5/3/2010	\$353,000	Shin
5/17/2010	\$400,000	Ayvazian
5/4/2010	\$400,000	Parida
4/9/2010	\$390,000	Jacobsen
6/22/2010	\$410,000	Sanchez
4/9/2010	\$361,000	Ayon
4/28/2010	\$391,500	Al-Amin
5/3/2010	\$421,000	Uy
4/14/2010	\$363,500	MacMillan
5/7/2010	\$386,000	Tenorio
5/3/2010	\$326,000	De Leon
4/27/2010	\$360,000	Calvert & McMurrin
	<b>\$7,343,000</b>	

\$367,150 Average Sales Price  
2,152 Average Unit Size

**16.78% Increase above  
Minimum Value**

### **Near Mass-graded Land/Village 3**

Village 3 is in a near mass-graded condition as of September 15, 2010, similar to the site condition as of April 1, 2010. As discussed in the Improvement Description section of the self-contained appraisal report, the appraisers were only provided very general information regarding the product for the build-out of the District. No additional information has been provided as of the completion of this report. Only the Brighton/Fairways product has been plotted for Village 3, proposed for 111 dwelling units. Therefore, for purposes of the appraisal assignments, we have assumed development of the Brighton/Fairways product within Village 3.

Due to the lack of current comparable land sales, the Static Residual Analysis was used to value Village 3 of the District. A site plan has not been submitted to the City for review as of the original date of value and the current date of value and a timeline for site and unit development is unknown. The purpose of the appraisal was to estimate the "as is" bulk value for the land proposed for 111 dwelling units. The infrastructure costs and in-tract site costs to bring the property from its current physical and legal condition to finished site condition are deducted in the Static Residual Analysis. The estimated value is the current "as is" value per proposed dwelling unit in Village 3, assuming development of one product. Please refer to pages 72 through 77 in the original appraisal report for discussion of the valuation of the near mass-graded land. As indicated by the Static Residual Analysis, the residual "as is" value is zero. The analysis used industry standards for various expenses, direct construction costs, in-tract site costs and building permit fees as provided by the developer and the current estimate of base sales prices for the Brighton townhome product, less current incentives.

While market conditions have continued to show minor improvement over the past 5½ months, there is not sufficient data to indicate a material change in value for Village 3. It is the appraisers opinion that if the near mass-graded land, proposed for 111 Brighton townhome units, were to be re-appraised as of September 15, 2010, the land would have a value that was *Not Less Than* the estimated Minimum Market Value as of April 1, 2010; No Value.

### **Not Less Than Value Conclusions**

Based on the investigation and analyses undertaken, our experience as real estate appraisers and subject to all the premises, assumptions and limiting conditions set forth in this report and the original appraisal report with an April 1, 2010 date of value, the following opinions of Minimum Market Value are formed as of September 15, 2010.

#### **CFD No. 8: \$55,975,000**

156 Individual Homeowners – \$49,900,000  
20 Individual Homeowners - \$6,075,000  
Cascades Park Properties, LLC – No Value

**Certification**

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

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

We have provided appraisal services regarding the subject property within the last three years to our client, the City of Los Angeles.

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

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

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

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

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

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

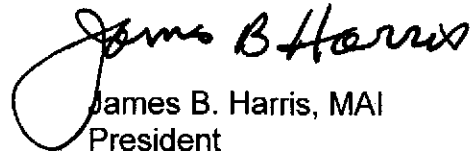
No one provided significant real property appraisal assistance to the persons signing this certificate.

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

Respectfully submitted,



Berri Cannon Harris  
Vice President  
AG009147



James B. Harris, MAI  
President  
AG001846

## **ADDENDA**

*Q U A L I F I C A T I O N S*

**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.

## ***MISCELLANEOUS***

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

## ***LEGAL EXPERIENCE***

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

## ***SCOPE OF EXPERIENCE***

### ***Feasibility and Consultive Studies***

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

### ***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

### ***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

### ***Commercial***

Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

### ***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

### ***Vacant Land***

Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.



**QUALIFICATIONS  
OF  
BERRI CANNON HARRIS**

***PROFESSIONAL BACKGROUND***

Actively engaged as a real estate appraiser since 1982. 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.

### ***MISCELLANEOUS***

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

### ***SCOPE OF EXPERIENCE***

#### ***Appraisal Projects***

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

#### ***Residential***

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

#### ***Commercial***

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

#### ***Industrial***

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

#### ***Vacant Land***

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

## ***PARTIAL LIST OF CLIENTS***

### ***Lending Institutions***

Bank of America	NationsBank
Bank One	Preferred Bank
Commerce Bank	Santa Monica Bank
Downey S&L Assoc.	Tokai Bank
Fremont Investment and Loan	Union Bank
Institutional Housing Partners	Wells Fargo Bank

### ***Public Agencies***

Army Corps of Engineers	City of Palm Springs
California State University	City of Perris
Caltrans	City of Rialto
City of Adelanto	City of Riverside
City of Aliso Viejo	City of San Marcos
City of Beaumont	City of Tustin
City of Camarillo	City of Victorville
City of Corona	City of Yucaipa
City of Costa Mesa	County of Hawaii
City of Encinitas	County of Orange
City of Fontana	County of Riverside
City of Fullerton	County of San Bernardino
City of Hesperia	Eastern Municipal Water District
City of Honolulu	Orange County Sheriff's Department
City of Huntington Beach	Ramona Municipal Water District
City of Indian Wells	Rancho Santa Fe Comm. Services District
City of Indio	Capistrano Unified School District
City of Irvine	Hemet Unified School District
City of Lake Elsinore	Hesperia Unified School District
City of Loma Linda	Romoland School District
City of Los Angeles	Saddleback Valley Unified School District
City of Moreno Valley	Santa Ana Unified School District
City of Newport Beach	Sulphur Springs School District
City of Oceanside	Val Verde Unified School District
City of Ontario	Yucaipa-Calimesa Unified School District

### ***Law Firms***

Arter & Hadden	McClintock, Weston, Benshoof,
Bronson, Bronson & McKinnon	Rocheft & MacCuish
Bryan, Cave, McPheeters & McRoberts	Palmiri, Tyler, Wiener, Wilhelm, & Waldron
Richard Clements	Sonnenschein Nath & Rosenthal
Cox, Castle, Nicholson	Strauss & Troy
Gibson, Dunn & Crutcher	Wyman, Bautzer, Rothman, Kuchel &
Hill, Farrer & Burrill	Silbert

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following summary discussion of selected provisions of the Indenture is made subject to all of the provisions of the Indenture. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Series 2010 Bonds are referred to the complete text of the Indenture, a copy of which is available upon request sent to the Trustee.*

### DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes of the Indenture and of any certificate, opinion or other document mentioned in the Indenture, have the meanings specified in the Indenture.

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

**“Additional Bonds”** means Bonds other than Series 2010 Bonds issued under the Indenture in accordance with the provisions thereof as summarized herein under the headings “CERTAIN FUNDS; ADDITIONAL BONDS – Conditions for the Issuance of Additional Bonds” and “—Procedure for the Issuance of Additional Bonds.”

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

**“Administrative Expenses”** means costs directly related to the administration of the Community Facilities District, consisting of (a) the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the Community Facilities District or a designee thereof or both), (b) the costs of collecting the Special Taxes (whether by the County or otherwise), (c) the costs of remitting the Special Taxes to the Trustee, (d) the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture, (e) the costs of the Community Facilities District of complying with arbitrage rebate requirements, (f) the costs of the City or the Community Facilities District in complying with the disclosure provisions of any continuing disclosure undertaking and the Indenture, (g) the costs of the City or the Community Facilities District associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes, (h) the costs of the City or the Community Facilities District related to an appeal of the Special Tax, (i) the costs of the City or the Community Facilities District associated with the release of funds from an escrow account (to the extent not paid from other sources), (j) the costs of calculating the prepayment of Special Taxes (to the extent not paid or provided for pursuant to the Rate and Method) and recordings related to such prepayment and satisfaction of Special Taxes, (k) reasonable attorney’s fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes, and (l) an allocable share of the salaries of the City staff directly related to the foregoing.

**“Annual Debt Service”** means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the principal of the Outstanding Bonds due in such Bond Year (including by reason of mandatory sinking fund redemptions).

**“Appraised Value”** means the value of all or any portion of the Taxable Property within the Community Facilities District, as set forth in a Qualified Appraisal Report prepared by a Qualified Appraiser.

**“Assessed Value”** means, with respect to any Assessor’s Parcel of Taxable Property within the Community Facilities District, as of any date, the assessed value thereof, as such value is shown on the most recently equalized assessment roll of the County Assessor.

**“Assessor’s Parcel”** has the meaning ascribed to such term in the Rate and Method.

**“Assigned Special Tax”** has the meaning ascribed to such term in the Rate and Method.

**“Assumed Administrative Expenses”** means (a) for Fiscal Year 2010-11, \$25,581, and (b) for any subsequent Fiscal Year, the amount resulting from increasing the Assumed Administrative Expenses on each July 1, from and including the July 1 immediately following the end of the then current Fiscal Year to and including the July 1 in such Fiscal Year by 2% of the amount in effect for the previous Fiscal Year.

**“Authorized Denominations”** means (a) with respect to the Series 2010 Bonds, \$5,000 and any integral multiple thereof, and (b) with respect to each Series of Additional Bonds, the authorized denominations for such Series of Additional Bonds specified in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

**“Authorized Representative”** means, with respect to the Community Facilities District, the CAO, and any other Person designated as an Authorized Representative of the Community Facilities District in a Written Certificate of the Community Facilities District filed with the Trustee.

**“Average Annual Debt Service”** means the average of the Annual Debt Service for all Bond Years, including the Bond Year in which the calculation is made.

**“Beneficial Owners”** means those Persons for which the Participants have caused the Depository to hold Book-Entry Bonds.

**“Bond Counsel”** means a firm of nationally recognized bond counsel selected by the Community Facilities District.

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

**“Bond Year”** means each twelve-month period beginning on September 2 in each year and extending to the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2010.

**“Bonds”** means the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) Special Tax Bonds issued under the Indenture, and includes the Series 2010 Bonds and any Additional Bonds.

**“Book-Entry Bonds”** means the Bonds of a Series registered in the name of the Depository, or the Nominee thereof, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

**“Business Day”** means a day which is not (a) a Saturday, Sunday or legal holiday in the State, (b) a day on which banking institutions in the State, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

**“CAO”** means the City Administrative Officer of the City, and any designee of said City Administrative Officer.

**“Cascades”** means Cascades Park Properties, LLC, a limited liability company organized and existing under the laws of the State, and its successors and assigns.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

**“Certificated Parcel”** means, as of any date, an Assessor’s Parcel of Taxable Property within the Community Facilities District that (a) has a single family residential unit constructed thereon for which a certificate of occupancy was issued by the City at least 90 days prior to such date, or (b) has a commercial building constructed thereon for which a certificate of occupancy was issued by the City at least 90 days prior to such date.

**“City”** means the City of Los Angeles, a charter city organized and existing under the laws of the State, and its successors.

**“City Council”** means the Council of the City.

**“Closing Date”** means the date upon which the Series 2010 Bonds are delivered to the Original Purchaser, being November 18, 2010.

**“Code”** means the Internal Revenue Code of 1986.

**“Community Facilities District”** means the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades), a community facilities district organized and existing under the laws of the State, and its successors.

**“Corresponding Bond Year”** means, with respect to any Fiscal Year, the Bond Year that commences in such Fiscal Year.

**“Costs of Issuance”** means all items of expense directly or indirectly payable by or reimbursable to the Community Facilities District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, any premium for bond insurance securing payment of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

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

**“County”** means the County of Los Angeles, a county and political subdivision of the State organized and existing under the laws of the State, and any successor thereto.

**“County Assessor”** means the Office of the Assessor of the County.

**“County Auditor”** means the Department of the Auditor-Controller of the County.

**“County Tax Collector”** means the Treasurer and Tax Collector of the County.

**“Credit Amount”** has the meaning ascribed to such term in the Infrastructure Agreement.

**“Defeasance Securities”** means non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America.

**“Depository”** means DTC, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture as summarized herein under the heading “THE BONDS – Book-Entry System.”

**“District Continuing Disclosure Agreement”** means the Continuing Disclosure Agreement, dated as of November 1, 2010, by and between the Community Facilities District and U.S. Bank National Association, in its capacity as Trustee and in its capacity as Dissemination Agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

**“DTC”** means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York.

**“Facilities”** means the facilities authorized to be financed by the Community Facilities District, as more particularly described in the Ordinance of Formation.

**“Fiscal Year”** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Community Facilities District.

**“Future Facilities Amount”** has the meaning ascribed to such term in the Rate and Method.

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

**“Indenture”** means the Indenture, dated as of November 1, 2010, by and between the Community Facilities District and U.S. Bank National Association, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

**“Independent Consultant”** means any consultant or firm of such consultants selected by the Community Facilities District and who, or each of whom (a) is generally recognized to be qualified in the financial consulting field, (b) is in fact independent and not under the control of the Community Facilities District or the City, (c) does not have any substantial interest, direct or indirect, with or in the Community Facilities District or the City, or any owner of real property in the Community Facilities District, or any real property in the Community Facilities District, and (d) is not connected with the Community Facilities District or the City as an officer or employee thereof, but who may be regularly retained to make reports to the Community Facilities District or the City.

**“Infrastructure Agreement”** means the Infrastructure Funding Agreement, dated as of November 1, 2010, by and among the Community Facilities District, the City and Cascades, as originally executed or as the same may be amended from time to time in accordance with its terms.

**“Interest Account”** means the account by that name within the Bond Fund established and held by the Trustee pursuant to the Indenture.

**“Interest Payment Dates”** means March 1 and September 1 of each year, commencing September 1, 2010.

**“Letter of Representations”** means the Letter of Representations from the Community Facilities District to the Depository, in which the Community Facilities District makes certain representations with respect to issues of its securities for deposit by the Depository.

**“Maximum Annual Debt Service”** means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

**“Moody’s”** means Moody’s Investors Service, Inc., a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

**“Net Special Tax Revenues”** means Special Tax Revenues, less amounts required to pay Administrative Expenses.

**“Nominee”** means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture as summarized herein under the heading “THE BONDS – Book-Entry System.”

**“Office of the Trustee”** means the principal corporate trust office of the Trustee in Los Angeles, California or such other office as may be specified to the Community Facilities District by the Trustee in writing.

**“Ordinance Levying Special Taxes”** means any ordinance adopted by the City Council levying the Special Taxes.

**“Ordinance of Formation”** means Ordinance No. 179,187, adopted by the City Council on September 18, 2007.

**“Original Purchaser”** means the original purchaser of the Series 2010 Bonds from the Community Facilities District.

**“Other District Bonds”** means, as of the date of determination, any and all bonds, notes or other evidences of indebtedness, other than the Bonds, issued under the Act then outstanding and payable at least partially from special taxes to be levied on parcels of land within the Community Facilities District.

**“Outstanding”** means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture as summarized herein under the heading “MISCELLANEOUS – Disqualified Bonds,” all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds with respect to which all liability of the Community Facilities District shall have been discharged in accordance with the Indenture as summarized herein under the heading “DEFEASANCE – Discharge of the Indenture,” and (c) Bonds in lieu of which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture as summarized herein under the heading “THE BONDS – Bonds Mutilated, Lost, Destroyed or Stolen.”

**“Owner”** means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

**“Participant”** means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.



**“Participating Underwriter”** has the meaning ascribed to such term in the District Continuing Disclosure Agreement and the Cascades Continuing Disclosure Agreement.

**“Payment Request”** has the meaning ascribed to such term in the Infrastructure Agreement.

**“Permitted Investments”** means the following, to the extent that such securities are otherwise eligible legal investments of the Community Facilities District:

(a) Direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

(b) Obligations of any of the following federal agencies which obligations are secured by the full faith and credit of the United States of America, including:

- Export - Import Bank
- 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

(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:

- Senior debt obligations rated “AAA” by S&P and “Aaa” by Moody’s issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior Debt Obligations of the Federal Home Loan Bank System

(d) Dollar denominated deposit accounts, federal funds and banker’s acceptances (including those of the Trustee or its affiliates) with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (Ratings on holding companies are not considered as the rating of the bank).

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

(f) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P (including funds of the Trustee or its affiliates).

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

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

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

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

(i) Investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, the long term unsecured obligations of which are rated at least Aa/AA or higher by both S&P and Moody’s.

“Value,” which shall be determined as of the end of each month, means that that value of any investment shall be calculated as follows:

(I) As to securities: (aa) the closing bid price quoted by Interactive Data Systems, Inc., (bb) a valuation performed by a nationally recognized and accepted pricing service whose valuation method consists of the composite average of various bid price quotes on the valuation date, or (cc) the lower of two dealer bids on the valuation date, which dealers or their parent holding companies must be rated at least investment grade by S&P and Moody’s;

(II) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest.

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

**“Principal Account”** means the account by that name within the Bond Fund established and held by the Trustee pursuant to the Indenture.

**“Qualified Appraisal Report”** means a real estate appraisal report which (a) has been prepared by a Qualified Appraiser, (b) uses a date of value that is no earlier than six months prior to the date on which the value reported in such appraisal report is used in accordance with the provisions of the Indenture, (c) is prepared in accordance with the applicable standards of the Appraisal Institute for such reports, and (d) is prepared in accordance with the applicable guidelines of the California Debt and Investment Advisory Commission for such reports, as such guidelines are in effect on the Closing Date.

**“Qualified Appraiser”** means a real estate appraiser (a) selected by the Community Facilities District, and (b) having an “MAI” designation from the Appraisal Institute.

**“Rate and Method”** means the rate and method of apportionment of the Special Taxes approved by the qualified electors of the Community Facilities District.

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

**“Rebate Requirement”** has the meaning ascribed to such term in the Tax Certificate.

**“Record Date”** means, with respect to interest payable on any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

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

**“Redemption Price”** means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

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

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

**“Reserve Requirement”** means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds (excluding Bonds refunded with the proceeds of subsequently issued Bonds), (b) Maximum Annual Debt Service, and (c) 125% of Average Annual Debt Service.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Community Facilities District.

**“Segments”** has the meaning ascribed to such term in the Infrastructure Agreement.

**“Series”** means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series 2010 Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

**“Series 2010 Bonds”** means the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) Special Tax Bonds, Series 2010, issued under the Indenture.

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

**“Special Tax Revenues”** means the proceeds of the Special Taxes received by or on behalf of the Community Facilities District, including any prepayments thereof, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, which shall be limited to the amount of said lien and interest and penalties thereon.

**“Special Taxes”** means the special taxes levied within the Community Facilities District pursuant to the Act, the Ordinance Levying Special Taxes and the Indenture.

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

**“Supplemental Indenture”** means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

**“Tax Certificate”** means the Tax Certificate executed by the Community Facilities District at the time of issuance of the Series 2010 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

**“Taxable Property”** has the meaning ascribed to such term in the Rate and Method.

**“Trustee”** means U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America, or any successor thereto as Trustee under the Indenture substituted in its place as provided in the Indenture.

**“Verification Report”** means, with respect to the deemed payment of Bonds pursuant to clause (ii)(B) of paragraph (a) of the section of the Indenture as summarized herein under the heading “DEFEASANCE – Bonds Deemed To Have Been Paid,” a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of the Indenture as summarized under clause (ii)(B) of paragraph (a) of the section of the Indenture as summarized herein under the heading “DEFEASANCE – Bonds Deemed To Have Been Paid.”

**“Written Certificate”** and **“Written Request”** of the Community Facilities District mean, respectively, a written certificate or written request signed in the name of the Community Facilities District by an Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## **THE BONDS**

**Registration Books.** The Trustee shall keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 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 Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds.

**Transfer and Exchange of Bonds.** Any Bond may be transferred upon the Registration Books by the Person in whose name it is registered, in person or by such Person’s duly authorized attorney, upon surrender of such Bond to the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be so surrendered for transfer, the Community Facilities District shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same Series and maturity in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series and maturity of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds of a Series pursuant to the provisions of the Indenture summarized by this section during the period established by the Trustee for the

selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

**Book-Entry System.** (a) Prior to the issuance of a Series of Bonds, the Community Facilities District may provide that such Series of Bonds shall initially be issued as Book-Entry Bonds, and in such event, the Bonds of such Series for each maturity date shall be in the form of a separate single fully-registered Bond (which may be typewritten). Upon initial issuance, the ownership of each such Bond of such Series shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. The Series 2010 Bonds shall initially be issued as Book-Entry Bonds.

Payment of principal of, and interest and premium, if any, on, any Book-Entry Bond registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Bonds, the Community Facilities District and the Trustee shall have no responsibility or obligation to any Participant or to any Person on behalf of which such a Participant holds an interest in such Book-Entry Bonds. Without limiting the immediately preceding sentence, the Community Facilities District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Bonds, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Bonds of a maturity to be redeemed in the event such Book-Entry Bonds are redeemed in part, (iv) the payment to any Participant or any other Person, other than an Owner as shown in the Registration Books, of any amount with respect to principal of, or premium, if any, or interest on Book-Entry Bonds, or (v) any consent given or other action taken by the Depository as Owner.

(c) The Community Facilities District and the Trustee may treat and consider the Person in whose name each Book-Entry Bond is registered in the Registration Books as the absolute Owner of such Book-Entry Bond for the purpose of payment of principal of, and premium, if any, and interest on such Bond, for the purpose of selecting any Bonds, or portions thereof, to be redeemed, for the purpose of giving notices of redemption and other matters with respect to such Book-Entry Bond, for the purpose of registering transfers with respect to such Book-Entry Bond, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the Community Facilities District and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a redemption of all or a portion of a Book-Entry Bond, the Depository, in its discretion (i) may request the Trustee to authenticate and deliver a new Book-Entry Bond, or (ii) if the Depository is the sole Owner of such Book-Entry Bond, shall make an appropriate notation on the Book-Entry Bond indicating the date and amounts of the reduction in principal thereof resulting from such redemption, except in the case of final payment, in which case such Book-Entry Bond must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal of, and premium, if any, and interest on the Book-Entry Bonds only to or "upon the order of" (as that term is used in the Uniform Commercial Code as adopted in the State) the respective Owner, as shown in the Registration Books, or such Owner's respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal of, and premium, if any, and interest on the Book-Entry Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the Registration Books, shall receive an authenticated Book-Entry Bond. Upon delivery by the Depository to the Owners, the Community Facilities District and the Trustee of written notice to the effect that the Depository has determined

to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Bonds for the Depository's book-entry system, the Community Facilities District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Community Facilities District or the Trustee any obligation whatsoever with respect to Persons having interests in such Book-Entry Bonds other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the Community Facilities District, the Community Facilities District and the Trustee shall take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository's book-entry program.

(g) In the event the Community Facilities District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Bonds and that such Bonds should therefore be made available, and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Bonds. In such event, the Trustee shall transfer and exchange certificated Bonds as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Bonds, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the Community Facilities District shall discontinue the Book-Entry system with the Depository. If the Community Facilities District determines to replace the Depository with another qualified securities depository, the Community Facilities District shall prepare or direct the preparation of a new single, separate, fully-registered Bond of the appropriate Series for each maturity date of such Book-Entry Bonds, registered in the name of such successor or substitute qualified securities depository or its nominee. If the Community Facilities District fails to identify another qualified securities depository to replace the Depository, then the Book-Entry Bonds shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of the Indenture as summarized herein under the headings "THE BONDS – Transfer and Exchange of Bonds," "—Bonds Mutilated, Lost, Destroyed or Stolen" and "—Temporary Bonds." Whenever the Depository requests the Community Facilities District to do so, the Community Facilities District shall cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Bonds to any Participant having Book-Entry Bonds credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Bonds.

(h) Notwithstanding any other provision of the Indenture to the contrary, if the Depository is the sole Owner of the Bonds of a Series, so long as any Book-Entry Bond of such Series is registered in the name of the Nominee, all payments of principal of, and premium, if any, and interest on such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to the Indenture by the Community Facilities District or the Trustee, with respect to any consent or other action to be taken by Owners of Book-Entry Bonds, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

**Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the Community Facilities District, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order

of, the Community Facilities District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the Community Facilities District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of the same Series and maturity in a like aggregate principal amount in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Community Facilities District may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the provisions of the Indenture summarized by this section and of the expenses which may be incurred by the Community Facilities District and the Trustee. Any Bond of a Series issued under the provisions of the Indenture summarized by this section in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Community Facilities District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

**Temporary Bonds.** The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such Authorized Denominations as may be determined by the Community Facilities District, shall be in fully-registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Community Facilities District and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Community Facilities District issues temporary Bonds of a Series it shall execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver, in exchange for such temporary Bonds, an equal aggregate principal amount of definitive Bonds of such Series and maturities in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series shall be entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered under the Indenture.

## **CERTAIN FUNDS; ADDITIONAL BONDS**

**Costs of Issuance Fund.** (a) The Trustee shall establish and maintain a separate fund designated the "Costs of Issuance Fund." On the Closing Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Indenture. There shall additionally be deposited in the Cost of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Closing Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Improvement Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

(c) If the Costs of Issuance Fund has been closed in accordance with the provisions of the Indenture, the Costs of Issuance Fund shall be reopened and reestablished by the Trustee in connection with the issuance of any Additional Bonds, if so provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued.

**Improvement Fund.** (a) The Trustee shall establish and maintain a separate fund designated the "Improvement Fund." On the Closing Date, the Trustee shall deposit in the Improvement Fund the amount specified in the Indenture.

(b) The moneys in the Improvement Fund shall be used and withdrawn by the Trustee from time to time to pay the costs of the Facilities (including the Credit Amount) upon submission to the Trustee of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment constitutes a cost of the Facilities and is a proper charge against the Improvement Fund, (v) that such amounts have not been the subject of a prior disbursement from the Improvement Fund, and (vi) whether or not the costs of the Facilities are to be paid pursuant to a Payment Request submitted in accordance with the Infrastructure Agreement, in each case together with a statement or invoice for each amount requested thereunder. If costs of the Facilities are to be paid pursuant to a Payment Request submitted in accordance with the Infrastructure Agreement, a duplicate original of the signed and approved Payment Request relating to such costs of the Facilities, together with all exhibits and attachments thereto, must accompany such Written Request of the Community Facilities District. If, on the date that a Written Request of the Community Facilities District is submitted pursuant to this paragraph, there are insufficient moneys in the Improvement Fund to pay in full the amount requested to be paid thereunder, the amount remaining unpaid shall be paid as and to the extent that moneys are subsequently deposited in the Improvement Fund, but only after the payment in full of all amounts requested pursuant to all Written Requests of the Community Facilities District submitted pursuant to this paragraph prior to the submission of such Written Request of the Community Facilities District.

(c) Upon the filing of a Written Certificate of the Community Facilities District (i) stating (A) that the portion of the Facilities to be financed from the Improvement Fund has been completed and that all costs of such Facilities have been paid, or (B) that such portion of the Facilities has been substantially completed and that all remaining costs of such portion of the Facilities have been determined and specifying the amount to be retained therefor, the Trustee shall (I) if the amount remaining in the Improvement Fund (less any such retention) is equal to or greater than \$25,000, transfer the portion of such amount equal to the largest integral multiple of \$5,000 that is not greater than such amount to the Redemption Fund, to be applied to the redemption of Bonds, and (II) after making the transfer, if any, required to be made pursuant to the preceding clause (I), transfer all of the amount remaining in the Improvement Fund (less any such retention) to the Interest Account, to be applied to the payment of interest on the Bonds.

(d) Upon the filing of a Written Certificate of the Community Facilities District stating that the Infrastructure Agreement has been terminated and that the Community Facilities District has determined to close the Improvement Fund, the Trustee shall (i) if and to the extent so directed in such Written Certificate, retain in the Improvement Fund the amount specified in such Written Certificate for payment of the cost of any Segment that is substantially complete, (ii) if the amount in excess of the amount retained pursuant to the preceding clause (i) is equal to or greater than \$25,000, transfer the portion of such excess amount equal to the largest integral multiple of \$5,000 that is not greater than such excess amount to the Redemption Fund and apply the same to the redemption of Bonds, and (iii) after making the transfer, if any, required to be made pursuant to the preceding clause (ii), transfer all of the amount in excess of the amount retained pursuant to the preceding clause (i) to the Interest Account and apply the same to pay interest on the Bonds.

(e) On the later of (i) the date that amounts are transferred in accordance with a Written Certificate of the Community Facilities District received pursuant to subsection (c) or subsection (d) of this Section, or (ii) the date that all of any amount retained in the Improvement Fund pursuant to subsection (c) or subsection (d) of this Section is expended, the Improvement Fund shall be closed.

**Conditions for the Issuance of Additional Bonds.** The Community Facilities District may at any time issue one or more Series of Additional Bonds (in addition to the Series 2010 Bonds) payable from Net Special Tax Revenues as provided in the Indenture on a parity with all other Bonds theretofore issued under



the Indenture, but only subject to the following conditions, which are made conditions precedent to the issuance of such Additional Bonds:

(a) upon the issuance of such Additional Bonds, no Event of Default shall have occurred and be continuing;

(b) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Indenture and the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(i) the purposes for which the proceeds of such Additional Bonds are to be applied, which purposes may only include one or more of (A) providing funds to finance Facilities, (B) providing funds to refund any Bonds previously issued under the Indenture, (C) providing funds to pay Costs of Issuance incurred in connection with the issuance of such Additional Bonds, (D) providing funds to pay interest on such Additional Bonds for a specified period, and (E) providing funds to make any deposit to the Reserve Fund required pursuant to paragraph (vi) below;

(ii) the principal amount and designation of such Series of Additional Bonds and the interest rate to be borne by each maturity of such Additional Bonds;

(iii) the date, the maturity date or dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that each such maturity date and date on which a mandatory sinking fund redemption is to be made shall be a September 1 and, provided, further, that serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(iv) the redemption premiums and terms, if any, for such Additional Bonds;

(v) the form of such Additional Bonds;

(vi) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; provided, however, that the amount on deposit in the Reserve Fund at the time that such Additional Bonds become Outstanding shall be at least equal to the Reserve Requirement; and

(vii) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;

(c) The Community Facilities District shall have received a certificate or certificates from one or more Independent Consultants which, when taken together, certify that:

(i) on the basis of the parcels of land in the Community Facilities District that are Certificated Parcels as of the date of issuance of such Additional Bonds, for each Fiscal Year that Bonds will be Outstanding, the amount of Assigned Special Taxes that may be levied on all such Certificated Parcels pursuant to the Act, the Ordinance and the Rate and Method in such Fiscal Year is at least equal to the sum of (A) 110% of Annual Debt Service for the Corresponding Bond Year on all Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (B) Assumed Administrative Expenses for such Fiscal Year; and

(ii) the sum of (A) the Assessed Value of Certificated Parcels for which a Qualified Appraisal Report has not been provided, plus (B) the Appraised Value of parcels of Certificated Parcels for which a Qualified Appraisal Report has been provided, as such Appraised Value is shown in such Qualified Appraisal Report, is at least four times the sum of (I) the aggregate principal amount of Bonds that will be Outstanding after the issuance of such Additional Bonds, plus (II) the aggregate principal amount of all fixed lien special assessments levied on Certificated Parcels, based upon information from the most recent Fiscal Year for which such information is available, plus (III) a portion of the aggregate principal amount of Other District Bonds equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on Certificated Parcels, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent Fiscal Year for which such information is available.

Notwithstanding the foregoing, if (i) such Additional Bonds are being issued to refund previously issued Bonds, and (ii) Annual Debt Service in each Bond Year, calculated for all Bonds that will be Outstanding after the issuance of such Additional Bonds, will be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds which are Outstanding immediately prior to the issuance of such Additional Bonds, the receipt of the certificate described in paragraph (c), above, shall not be a condition precedent to the issuance of such Additional Bonds.

Nothing contained in the Indenture shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

**Procedure for the Issuance of Additional Bonds.** At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds shall be executed by the Community Facilities District for issuance under the Indenture and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

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

(b) a Written Request of the Community Facilities District as to the delivery of such Additional Bonds;

(c) a Written Certificate of the Community Facilities District stating that the conditions precedent to the issuance of such Additional Bonds specified in the Indenture as summarized herein under the heading "CERTAIN FUNDS; ADDITIONAL BONDS – Conditions for the Issuance of Additional Bonds" have been satisfied;

(d) an opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Community Facilities District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), (ii) such Additional Bonds constitute valid and binding special obligations of the Community Facilities District and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of

equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State), and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(e) the proceeds of the sale of such Additional Bonds; and

(f) such further documents or money as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

**Additional Bonds.** So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any Additional Bonds or obligations payable from Net Special Tax Revenues on a parity with the Bonds, except pursuant to the Indenture as summarized herein under the headings “CERTAIN FUNDS; ADDITIONAL BONDS – Conditions for the Issuance of Additional Bonds” and “—Procedure for the Issuance of Additional Bonds.” So long as any of the Bonds remain Outstanding, the Community Facilities District shall not issue any obligations payable from Net Special Tax Revenues on a basis senior to the Bonds. The Community Facilities District may issue obligations payable from Net Special Tax Revenues on a basis subordinate to the Bonds, without complying with the Indenture as summarized herein under the headings “CERTAIN FUNDS; ADDITIONAL BONDS – Conditions for the Issuance of Additional Bonds” and “—Procedure for the Issuance of Additional Bonds.”

## **SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS**

**Pledge.** Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, in order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act, the Community Facilities District pledges to the Owners, and grants thereto a lien on and a security interest in, all of the Net Special Tax Revenues and any other amounts held in the Special Tax Fund, the Bond Fund and the Reserve Fund. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Community Facilities District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

**Special Tax Fund.** (a) The Trustee shall establish and maintain a separate fund designated the “Special Tax Fund.” No later than ten Business Days after the receipt by the Community Facilities District of any Special Tax Revenues, the Community Facilities District shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that with respect to any such Special Tax Revenues that represent prepaid Special Taxes (i) said prepaid Special Taxes shall be identified as such in a Written Certificate of the Community Facilities District delivered to the Trustee at the time such prepaid Special Taxes are transferred to the Trustee, (ii) the portion of such prepaid Special Taxes that, pursuant to the Rate and Method, is to be applied to the Redemption Price of the Bonds shall be identified in such Written Certificate of the Community Facilities District, shall be deposited by the Trustee in the Redemption Fund and shall be applied to the redemption of Bonds as described in the Official Statement under the heading “THE SERIES 2010 BONDS – Redemption of the Series 2010 Bonds – *Mandatory Redemption from Special Tax Prepayments*” and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued, (iii) the portion of such prepaid Special Taxes that, pursuant to the Rate and Method, is to be applied to the payment of interest on the Bonds to be so redeemed shall be identified in such Written Certificate of the Community Facilities District, shall be deposited by the Trustee in the Interest Account and shall be applied to the payment of such interest, and (iv) the portion of such prepaid Special Taxes that, pursuant to the Rate and Method, constitutes the Future Facilities Amount shall be identified in such Written

Certificate of the Community Facilities District and shall be deposited by the Trustee in the Improvement Fund.

(b) Upon receipt of a Written Request of the Community Facilities District, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the Community Facilities District as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

(c) On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall make the following transfers in the following order of priority:

(i) Interest Account. The Trustee shall transfer from the Special Tax Fund to the Interest Account the amount, if any, necessary to cause the amount on deposit in the Interest Account to be equal to the interest due on the Bonds on such Interest Payment Date;

(ii) Principal Account. After having made any transfers required to be made pursuant to the preceding paragraph (i), the Trustee shall transfer from the Special Tax Fund to the Principal Account the amount, if any, necessary to cause the amount on deposit in the Principal Account to be equal to the principal, if any, due on the Bonds on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds; and

(iii) Reserve Fund. After having made any transfers required to be made pursuant to the preceding paragraphs (i) and (ii), the Trustee shall transfer from the Special Tax Fund to the Reserve Fund the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

**Administrative Expense Fund.** (a) The Trustee shall establish and maintain a special fund designated the "Administrative Expense Fund." The Trustee shall deposit in the Administrative Expense Fund the amount specified in the Indenture. The Trustee shall deposit in the Administrative Expense Fund the amounts transferred from the Special Tax Fund and required to be deposited therein pursuant to the Indenture as summarized herein under the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Special Tax Fund."

(b) The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the Community Facilities District stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred and that such purpose constitutes an Administrative Expense, (iv) that such payment is a proper charge against the Administrative Expense Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested thereunder.

**Bond Fund.** (a) The Trustee shall establish and maintain a separate fund designated the "Bond Fund." Within the Bond Fund, the Trustee shall establish and maintain a separate account designated the "Principal Account" and a separate account designated the "Interest Account. On the Closing Date there shall be deposited in the Interest Account the amount specified in the Indenture. The Trustee shall deposit in the Interest Account and the Principal Account from time to time the amounts required to be deposited therein pursuant to the Indenture as summarized herein under the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Special Tax Fund." There shall additionally be deposited in the Interest Account the portion, if any, of the proceeds of the sale of Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) In the event that, on the Business Day prior to an Interest Payment Date, amounts in the Interest Account are insufficient to pay the interest on the Bonds due and payable on such Interest Payment Date, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Interest Account.

(c) On each Interest Payment Date, the Trustee shall withdraw from the Interest Account for payment to the Owners of the Bonds the interest on the Bonds then due and payable.

(d) In the event that, on the Business Day prior to a September 1 on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of the Bonds, amounts in the Principal Account are insufficient to pay such principal, after having withdrawn any amounts from the Reserve Fund required to be withdrawn therefrom on such date pursuant to subsection (b) of the provisions of the Indenture summarized by this section, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Principal Account.

(e) On each September 1 on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of the Bonds, the Trustee shall withdraw from the Principal Account for payment to the Owners of the Bonds such principal then due and payable.

**Reserve Fund.** (a) The Trustee shall establish and maintain a special fund designated the “Reserve Fund.” On the Closing Date, the Trustee shall deposit in the Reserve Fund the amount specified in the Indenture. The Trustee shall deposit in the Reserve Fund from time to time the amounts required to be deposited therein pursuant to the Indenture as summarized herein under the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Special Tax Fund.” There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(b) Except as otherwise provided in the provisions of the Indenture summarized by this section, amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) making transfers to the Interest Account in accordance with the Indenture as summarized herein under paragraph (b) under the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Bond Fund” in the event of any deficiency at any time in the Interest Account of the amount then required for payment of the interest on the Bonds, (ii) making transfers to the Principal Account in accordance with the Indenture as summarized herein under paragraph (d) under the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Bond Fund” in the event of any deficiency at any time in the Principal Account of the amount then required for payment of the principal of the Bonds, and (iii) redeeming Bonds in accordance with the provisions of the Indenture summarized by this section.

(c) Whenever Bonds are to be optionally redeemed or redeemed from Special Tax prepayments, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to the Indenture as summarized herein under the heading “DEFEASANCE – Bonds Deemed To Have Been Paid” be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of the minimum Authorized Denomination for said Bonds that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the

principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

(d) Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall, upon receipt of a Written Request of the Community Facilities District, transfer the amount in the Reserve Fund to the Interest Account, Principal Account and/or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

(e) If, as a result of the scheduled payment of principal of or interest on the Bonds, the Reserve Requirement is reduced, the Trustee shall transfer an amount equal to the amount of such reduction to the Interest Account.

**Redemption Fund.** (a) The Trustee shall establish and maintain a special fund designated the “Redemption Fund.” The Trustee shall deposit in the Redemption Fund (i) amounts received from the Community Facilities District in connection with the Community Facilities District’s exercise of its rights to optionally redeem Bonds, (ii) the portion of prepaid Special Taxes required to be deposited therein pursuant to the Indenture as summarized herein under paragraph (a) under the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Special Tax Fund,” (iii) amounts required to be transferred to the Redemption Fund from the Improvement Fund pursuant to the Indenture as summarized herein under paragraphs (c) or (d) under the heading “CERTAIN FUNDS; ADDITIONAL BONDS – Improvement Fund,” (iv) amounts required to be transferred to the Redemption Fund from the Reserve Fund pursuant to the Indenture as summarized herein under paragraphs (c) or (d) under the heading “SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Reserve Fund,” and (v) amounts required to be deposited therein pursuant to any Supplemental Indenture.

(b) Amounts in the Redemption Fund shall be disbursed therefrom for the payment of the Redemption Price of Series 2010 Bonds redeemed as described in the Official Statement under the heading “THE SERIES 2010 BONDS – Redemption of the Series 2010 Bonds – *Optional Redemption*” or “— *Mandatory Redemption from Special Tax Prepayments*” and for the payment of the Redemption Price of Additional Bonds redeemed under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

**Rebate Fund.** (a) The Trustee shall establish and maintain a special fund designated the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Community Facilities District. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture as summarized herein under the heading “DEFEASANCE,” or anything to the contrary contained in the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Indenture summarized by this section and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Community Facilities District, and shall have no liability or responsibility to enforce compliance by the Community Facilities District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Community Facilities District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Community Facilities District’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the provisions of the Indenture summarized by this section, shall, upon

receipt by the Trustee of a Written Request of the Community Facilities District, be withdrawn by the Trustee and remitted to the Community Facilities District.

**Investment of Moneys.** (a) Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments, as directed in a Written Request of the Community Facilities District received by the Trustee no later than two Business Days prior to the making of such investment. Moneys in all such funds and accounts shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds and, provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent a timely Written Request of the Community Facilities District with respect to the investment of moneys in any of the funds or accounts established pursuant to the Indenture, the Trustee shall invest such moneys in Permitted Investments described in paragraph (f) of the definition thereof.

(b) Subject to the provisions of the Indenture as summarized herein under the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Rebate Fund," all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Reserve Fund) shall be retained therein. Subject to the provisions of the Indenture as summarized herein under the heading "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS – Rebate Fund," all interest, profits or other income received from the investment of moneys in the Reserve Fund shall, prior to the date on which a Written Certificate of the Community Facilities District is delivered to the Trustee pursuant to the Indenture as summarized herein under paragraphs (c) or (d) under the heading "CERTAIN FUNDS; ADDITIONAL BONDS – Improvement Fund," be transferred to the Improvement Fund and, thereafter, shall be deposited in the Interest Account; provided, however, that, notwithstanding the foregoing, any such transfer shall be made only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund is at least equal to the Reserve Requirement.

(c) Permitted Investments acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund or account shall be valued by the Trustee at the market value thereof (without regard to costs incurred in the acquisition or disposition thereof, including breakage, unwind or other similar fees), such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15. To the extent of any valuations to be made by the Trustee under the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system. Any Permitted Investment that is a registrable security shall be registered in the name of the Trustee.

(d) The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Community Facilities District, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments are credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the provisions of the Indenture summarized by this section. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture. The Trustee, in making or disposing of any investment permitted by the provisions of the Indenture summarized by this section, may deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as a principal for its own account.

(e) To the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Community Facilities District the right to receive brokerage confirmations of security transactions as they occur, the Community Facilities District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee shall furnish the Community Facilities District periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Indenture.

## COVENANTS

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

(b) Prior to August 1 of each year, the Community Facilities District shall ascertain from the County Assessor the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year. The Community Facilities District shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance Levying Special Taxes by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the County Auditor will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Community Facilities District shall prepare or cause to be prepared, and shall transmit to the County Auditor, such data as the County Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

(c) The Community Facilities District shall fix and levy the amount of Special Taxes within the Community Facilities District in each Fiscal Year in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield Special Tax Revenues in the amount required for (i) the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the Corresponding Bond Year, (ii) any necessary replenishment of the Reserve Fund, and (iii) the payment of Administrative Expenses estimated to be paid from such Special Tax Revenues, taking into account the balances in the funds and accounts established under the Indenture.

(d) The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable (or in such other manner as the City Council shall determine, including direct billing of the affected property owners), and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the *ad valorem* taxes on real property.

**Compliance with Act.** The Community Facilities District shall comply with all applicable provisions of the Act.

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

**Extension of Payment of Bonds.** The Community Facilities District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except



subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the provisions of the Indenture summarized by this section shall be deemed to limit the right of the Community Facilities District to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

**Against Encumbrances; Defense of Pledge.** The Community Facilities District shall not create, or permit the creation of, any pledge of, lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture, except as permitted by the Indenture. The Community Facilities District shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of such assets, and the lien thereon and security interest therein created by the Indenture, against all claims and demands of all Persons whomsoever.

**Tax Covenants.** (a) The Community Facilities District shall not 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 Series 2010 Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Community Facilities District shall comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth in the Indenture. The covenant summarized by this section shall survive payment in full or defeasance of the Series 2010 Bonds.

(b) In the event that at any time the Community Facilities District is of the opinion that for purposes of the provisions of the Indenture summarized by this section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the Community Facilities District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture summarized by this section, if the Community Facilities District shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the provisions of the Indenture summarized by this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2010 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture summarized by this section and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

**Non-Cash Payments of Special Taxes.** The Community Facilities District shall not authorize owners of taxable parcels within the Community Facilities District to satisfy Special Tax obligations by the tender of Bonds unless the Community Facilities District shall have first obtained a report of an Independent Consultant certifying that doing so would not result in the Community Facilities District having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

**Reduction in Special Taxes.** The Community Facilities District shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the Community Facilities District shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

**State Reporting.** If at any time the Trustee fails to pay principal or interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal of or interest on the Bonds, the Trustee shall notify the Community Facilities District in writing of such failure or withdrawal, and the Community Facilities District shall notify the California Debt and Investment Advisory Commission of such failure or withdrawal within ten days of the failure to make such payment or the date of such withdrawal.

**Annual Reports to the California Debt and Investment Advisory Commission.** Not later than October 30 of each year, commencing October 30, 2011 and continuing until the October 30 following the final maturity of the Bonds, the Community Facilities District shall supply to the California Debt and Investment Advisory Commission the information required to be provided thereto pursuant to Section 53359.5(b) of the Act. Such information shall be made available to any Owner upon written request to the Community Facilities District accompanied by a fee determined by the Community Facilities District to pay the costs of the Community Facilities District in connection therewith. The Community Facilities District shall in no event be liable to any Owner or any other person or entity in connection with any error in any such information.

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

### **EVENTS OF DEFAULT AND REMEDIES**

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

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

(b) failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

(c) failure by the Community Facilities District to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Community Facilities District by the Trustee, or to the Community Facilities District and the Trustee by the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, that, if in the reasonable opinion of the Community Facilities District the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Community Facilities District within such 30 day period and the Community Facilities District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(d) the commencement by the Community Facilities District or the City of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

**Foreclosure.** If an Event of Default shall occur under the Indenture as summarized herein under paragraphs (a) or (b) under the heading “EVENTS OF DEFAULT AND REMEDIES – Events of Default” then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in the Community Facilities District with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

**Other Remedies.** If an Event of Default shall have occurred and be continuing, the Trustee shall have the right:

(a) by mandamus, suit, action or proceeding, to compel the Community Facilities District and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Community Facilities District and the fulfillment of all duties imposed upon it by the Indenture and the Act;

(b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the rights of the Trustee or the Owners; or

(c) by suit, action or proceeding in any court of competent jurisdiction, to require the Community Facilities District and its officers and employees to account as if it and they were the trustees of an express trust.

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

**Application of Net Special Tax Revenues After Default.** If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) to the payment of the principal and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

*First:* to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

*Second:* to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference; and

(c) any remaining funds shall be transferred by the Trustee to the Special Tax Fund.

**Power of Trustee to Enforce.** All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

**Owners' Direction of Proceedings.** Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture; provided, however, that such direction shall not be otherwise than in accordance the provisions of the Indenture, the Act and other applicable law and, provided, further, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

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

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners shall have any right in any manner whatever by such Owner's or Owners' action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Owners, subject to the provisions of the Indenture.

**Absolute Obligation.** Nothing in the Indenture or the Bonds contained shall affect or impair the obligation of the Community Facilities District, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners at their respective dates of maturity, or upon call for redemption, as in the Indenture provided, but only out of the Net Special Tax Revenues and other assets in the Indenture pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

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

**No Waiver of Default.** No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Owners may be exercised from time to time and as often as may be deemed expedient.

## TRUSTEE

**Duties and Liabilities of Trustee.** The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

**Qualifications; Removal and Resignation; Successors.** (a) The Trustee initially a party to the Indenture and any successor thereto shall at all times be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The Community Facilities District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Indenture and any successor thereto if (i) at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with subsection (a) of the provisions of the Indenture summarized by this section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the Community Facilities District, and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of subsection (a) of the provisions of the Indenture summarized by this section, the Trustee shall resign immediately in the manner and with the effect specified in the provisions of the Indenture summarized by this section.

(d) Upon removal or resignation of the Trustee, the Community Facilities District shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in subsection (a) of the provisions of the Indenture summarized by this section. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Community Facilities District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the

Community Facilities District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Indenture set forth. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under subsection (a) of the provisions of the Indenture summarized by this section, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

**Liability of Trustee.** (a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Community Facilities District, and the Trustee shall not assume responsibility for the correctness of the same or incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds.

(b) The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to the issuance of the Bonds for value, the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or the application of any moneys paid to the Community Facilities District or others in accordance with the Indenture.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

(d) No provision of the Indenture or any other document related to the Indenture shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Indenture through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

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

(h) Before taking action under the Indenture as summarized herein under the heading "EVENTS OF DEFAULT AND REMEDIES," under the Indenture as summarized herein under the heading "TRUSTEE" or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished

to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(j) The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

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

(l) The Trustee shall not be deemed to have knowledge of an Event of Default under the Indenture unless it has actual knowledge thereof.

**Accounting Records and Financial Statements.** The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds, the Special Tax Revenues and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the Community Facilities District, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the Community Facilities District a monthly accounting of the funds and accounts it holds under the Indenture; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

## **SUPPLEMENTAL INDENTURES**

**Supplemental Indentures.** (a) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners under the Indenture may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Community Facilities District and the Trustee may enter into when there are filed with the Trustee the written consents of the Owners of a majority of the aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture as summarized herein under the heading “MISCELLANEOUS – Disqualified Bonds.” No such modification or amendment shall (i) extend the fixed maturity of any Bond, reduce the amount of principal thereof or the rate of interest thereon, extend the time of payment thereof or alter the redemption provisions thereof, without the consent of the Owner of each Bond so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Indenture prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Indenture or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Indenture, except as expressly provided in the Indenture, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) modify or amend the provisions of the Indenture summarized by this section without the prior written consent of the Owners of all Bonds then Outstanding.

(b) The Indenture and the rights and obligations of the Community Facilities District, the Trustee and the Owners under the Indenture may also be modified or amended from time to time and at any time by a

Supplemental Indenture, which the Community Facilities District and the Trustee may enter into without the consent of any Owners for any one or more of the following purposes:

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

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture;

(iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture as summarized herein under the heading "CERTAIN FUNDS; ADDITIONAL BONDS;"

(iv) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect;

(v) to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(vi) in any other respect whatsoever as the Community Facilities District may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Indenture.

(c) Promptly after the execution by the Community Facilities District and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the Community Facilities District), by first-class mail, postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

**Effect of Supplemental Indenture.** Upon the execution of any Supplemental Indenture pursuant to the Indenture as summarized herein under the heading "SUPPLEMENTAL INDENTURES," the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Community Facilities District, the Trustee and the Owners shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

**Amendment of Particular Bonds.** The provisions of the Indenture as summarized herein under the heading "SUPPLEMENTAL INDENTURES" shall not prevent any Owner from accepting any amendment or modification as to any particular Bond owned by it, provided that due notation thereof is made on such Bond.

## **DEFEASANCE**

**Discharge of Indenture.** (a) If the Community Facilities District shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and therein, then the Owners shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District under the Indenture shall thereupon cease, terminate and become void and the Indenture shall be



discharged and satisfied. In such event, the Trustee shall execute and deliver to the Community Facilities District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Community Facilities District all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on the Bonds.

(b) Subject to the provisions of subsection (a) of the provisions of the Indenture summarized by this section, when any Bond shall have been paid and if, at the time of such payment, the Community Facilities District shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bond and such Bond shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Community Facilities District under the Indenture shall cease, terminate, become void and be completely discharged and satisfied as to such Bond.

(c) Notwithstanding the discharge and satisfaction of the Indenture or the discharge and satisfaction of the Indenture in respect of any Bond, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Bond, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on such Bond, and to pay to the Owner of such Bond the funds so held by the Trustee as and when such payment becomes due.

**Bonds Deemed To Have Been Paid.** (a) If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bond and the payment of the interest thereon to the maturity or redemption date thereof, such Bond shall be deemed to have been paid within the meaning and with the effect provided in the Indenture as summarized herein under the heading “DEFEASANCE – Discharge of Indenture.” Any Outstanding Bond shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture as summarized herein under the heading “DEFEASANCE – Discharge of Indenture” if (i) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Community Facilities District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture as described in the Official Statement under the heading “THE SERIES 2010 BONDS – Redemption of the Series 2010 Bonds – *Notice of Redemption*” notice of redemption of such Bond on said redemption date, said notice to be given in accordance with the Indenture as described in the Official Statement under the heading “THE SERIES 2010 BONDS – Redemption of the Series 2010 Bonds – *Notice of Redemption*,” (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, together with the money, if any, deposited therewith, will provide moneys which shall be sufficient to pay when due the interest to become due on such Bond on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bond, and (iii) in the event such Bond is not by its terms subject to redemption within the next succeeding 60 days, the Community Facilities District shall have given the Trustee, in form satisfactory to it, irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Bond that the deposit required by clause (ii) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the provisions of the Indenture summarized by this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bond.

(b) No Bond shall be deemed to have been paid pursuant to clause (ii) of subsection (a) of the provisions of the Indenture summarized by this section unless the Community Facilities District shall have caused to be delivered (i) an executed copy of a Verification Report with respect to such deemed payment,

addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of subsection (a) of the provisions of the Indenture summarized by this section resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report, and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (iii) a copy of an opinion of Bond Counsel, dated the date of such deemed payment and addressed to the Community Facilities District and the Trustee, in form and in substance acceptable to the Community Facilities District and the Trustee, to the effect that such Bond has been paid within the meaning and with the effect expressed in the Indenture, the Indenture has been discharged in respect of such Bond and all agreements, covenants and other obligations of the Community Facilities District under the Indenture as to such Bond have ceased, terminated, become void and been completely discharged and satisfied.

**Unclaimed Moneys.** Any moneys held by the Trustee in trust for the payment and discharge of the principal of, or premium or interest on, any Bond which remain unclaimed for two years after the date when such principal, premium or interest has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, premium or interest become payable, shall be repaid by the Trustee to the Community Facilities District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Bond shall look only to the Community Facilities District for the payment of such principal, premium or interest.

## MISCELLANEOUS

**Successor Is Deemed Included in All References to Predecessor.** Whenever in the Indenture either the Community Facilities District or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained required by the Indenture to be performed by or on behalf of the Community Facilities District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

**Limitation of Rights.** Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the Community Facilities District and the Owners any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the Community Facilities District and the Owners.

**Destruction of Bonds.** Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Community Facilities District of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds.

**Evidence of Rights of Owners.** Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Community Facilities District if made in the manner provided in the provisions of the Indenture summarized by this section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by

the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Community Facilities District in accordance therewith or reliance thereon.

**Disqualified Bonds.** In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Community Facilities District, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the provisions of the Indenture summarized by this section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Community Facilities District or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

**Money Held for Particular Bonds.** The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners entitled thereto, subject, however, to the provisions of the Indenture as summarized herein under the heading "DEFEASANCE – Unclaimed Moneys" but without any liability for interest thereon.

**Funds and Accounts.** Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with prudent corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof. The Trustee may establish any such additional funds or accounts as it deems necessary to perform its obligations under the Indenture.

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

**Interpretation.** Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

**Conflict with Act.** In the event of any conflict between any provision of the Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of the Indenture.

**Conclusive Evidence of Regularity.** Bonds issued pursuant to the Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

**Governing Laws.** The Indenture shall be governed by and construed in accordance with the laws of the State.

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## APPENDIX D

### FORM OF BOND COUNSEL'S OPINION

*Upon delivery of the Series 2010 Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2010 Bonds in substantially the following form:*

[Date of Delivery]

City of Los Angeles Community Facilities District  
No. 8 (Legends at Cascades)  
Los Angeles, California

City of Los Angeles  
Community Facilities District No. 8 (Legends at Cascades)  
Special Tax Bonds, Series 2010  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) (the "Community Facilities District") in connection with the issuance by the Community Facilities District of its City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) Special Tax Bonds, Series 2010 (the "Series 2010 Bonds"), in the aggregate principal amount of \$6,000,000, issued pursuant to the Indenture, dated as of November 1, 2010 (the "Indenture"), by and between the Community Facilities District and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized undefined terms used herein have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, opinions of counsel to the Community Facilities District and the Trustee, certificates of the Community Facilities District, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2010 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Community Facilities District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed

compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2010 Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Series 2010 Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities such as the Community Facilities District in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the plans, specifications, maps, reports or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Taxes levied upon any individual parcel. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2010 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2010 Bonds constitute valid and binding special obligations of the Community Facilities District, payable, as provided in the Indenture, solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture.
2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Community Facilities District.
3. Interest on the Series 2010 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010 Bonds.

Faithfully yours,

## APPENDIX E

### FORM OF DISTRICT'S CONTINUING DISCLOSURE AGREEMENT

This District Continuing Disclosure Agreement, dated as of November 1, 2010 (the "Disclosure Agreement"), is made and entered into by and among the City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) (the "District"), U.S. Bank National Association, as dissemination agent (the "Dissemination Agent"), and U.S. Bank National Association, as trustee (the "Trustee") under the Indenture, dated as of November 1, 2010 (the "Indenture"), by and between the District and the Trustee, in connection with the issuance by the District of its Special Tax Bonds, Series 2010 in the aggregate principal amount of \$6,000,000 (the "Bonds") pursuant to the Indenture.

The District, the Dissemination Agent and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the holders and beneficial owners of the Bonds and in order to assist each Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities Exchange Commission.

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

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

"Dissemination Agent" shall mean U.S. Bank National Association, acting in its capacity as the Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Trustee a written acceptance of such designation.

"Listed Event" 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.

"Official Statement" shall mean the Official Statement, dated November 4, 2010, relating to the Bonds.

"Participating Underwriter" shall mean any of the original underwriter of the Bonds required to comply with the Rule in connection with an offering of the Bonds.

"Repository" shall mean the Municipal Securities Rule Making Board, which can be found at <http://emma.msrb.org>.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than six (6) months following the end of the District's fiscal year, commencing six (6) months following the end of the District's fiscal year ending June 30, 2010, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement; provided that the Annual Report of the Fiscal Year



ending June 30, 2010 shall consist solely of the Official Statement. Not later than five (5) business days prior to said date, the District shall provide the Annual Report (in a form suitable for filing with the Repository) to the Dissemination Agent and to the Trustee (if the Dissemination Agent is not the Trustee). The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the 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 the audited Financial Statements are not available by that date.

(b) If the Trustee has not received a copy of the Annual Report by the date required in Subsection (a), the Trustee shall contact the District and the Dissemination Agent (if the Trustee is not the Dissemination Agent) in order to determine if the District is in compliance with the second sentence of Subsection (a). If the Trustee is unable to verify that an Annual Report has been provided to the Repository and the Participating Underwriter by the date required in Subsection (a), the Trustee shall send a notice to the Repository in substantially the form attached as Exhibit "A."

(c) The Dissemination Agent shall:

- (i) confirm the electronic filing requirements of the Repository;
- (ii) provide any Annual Report received by it to the Repository and the Participating Underwriter, as provided herein; and
- (iii) file a report with the District and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

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

- (a) a copy of its annual financial statements prepared in accordance with generally accepted accounting principles audited by a firm of certified public accountants (if audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Annual Report and audited financial statements shall be filed in the same manner as the Annual Report when and if available); and
- (b) the information referred to in Exhibit "B" hereto.

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall provide or cause to be provided, in a timely manner, to the Repository, if any, and the Participating Underwriter, notice of any of the following events with respect to the Bonds, if such event is 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 Bonds;
- (vii)    Modifications to rights of bondholders;
- (viii)   Contingent or unscheduled Bond calls;
- (ix)     Defeasances;
- (x)      Release, substitution or sale of property security repayment of the Bonds; or
- (xi)     Rating changes.

(b)     The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the District, inform the District of the Listed Event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report such Listed Event pursuant to Subsection (e) of this Section.

(c)     Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to Subsection (b) of this Section or otherwise, the District shall promptly (i) determine if such event would be material under applicable federal securities laws and (ii) if the District determines that such event would be material under applicable federal securities laws, so notify the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Subsection (e) of this Section.

(d)     If in response to a request under Subsection (b) of this Section, the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Trustee (if the Trustee is not the Dissemination Agent) and the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence thereof pursuant to Subsection (e) of this Section.

(e)     If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file notice of such occurrence with the Repository, and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in clauses (viii) and (ix) of Subsection (a) of this Section need not be given any earlier than the notice (if any) of the underlying event is required to be given to holders of affected Bonds pursuant to the Indenture.

(f)     In the event that the District's fiscal year changes, the District shall give notice of such change to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent) and shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as a material Listed Event would be reported pursuant to Subsection (e) of this Section.

**SECTION 6.    Termination of Reporting Obligation.**    The District's obligations under this Disclosure Agreement shall terminate upon the earliest of: (i) the date of legal defeasance, prior redemption or payment in full of all of the Bonds; (ii) the date that the District no longer constitutes an "obligated person" within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall instruct the Dissemination Agent to provide a notice of such

termination in the same manner and to the same parties as would be provided for a Listed Event under Section 5(e).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist the District in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the District, so long as such amendment does not adversely affect the rights or obligations of the Trustee or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that (a) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements or a change in law; (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of Bond Counsel approved by the District and the Participating Underwriter, have complied with the requirements of the Rule at the time the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or Bond Counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type or presentation of operating data or financial information being provided.

As required by the Rule, if an amendment is made to the provisions hereof 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. 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 manner as for a Listed Event under Section 5(e).

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

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and at the written request of any Participating Underwriter or the holders of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction against the costs, expenses and liabilities to incurred in compliance with such request, shall), or any Participating Underwriter and any holder or beneficial owner of

the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the District, the Trustee the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Assignability. The Dissemination Agent may, but only with the consent of the District, assign this Disclosure Agreement and the Dissemination Agent's rights and obligations hereunder to a successor Dissemination Agent.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF LOS ANGELES COMMUNITY FACILITIES  
DISTRICT NO. 8 (LEGENDS AT CASCADES)

By: \_\_\_\_\_  
Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) (the "District")

Name of Bond Issue: \$6,000,000 City of Los Angeles Community Facilities District No. 8 (Legends at Cascades) Special Tax Bonds, Series 2010

Date of Issuance: November 18, 2010

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the District Continuing Disclosure Agreement dated \_\_\_\_\_, 2010. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_, \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## EXHIBIT B

### CONTENTS OF ANNUAL REPORTS

In addition to the audited financial statements of the District required to be included in the District's Annual Report pursuant to Section 4, the District's Annual Report shall contain or include by reference the following information (except where otherwise noted, such information to be as of the second business day in September immediately preceding the date of the Annual Report):

1. The principal amount of Series 2010 Bonds and all Bonds outstanding;
2. The balance on deposit in the Reserve Fund and the then applicable Reserve Requirement and the balance on deposit in each account in the Improvement Fund.
3. An update to Table 1 of the Official Statement and a description of the status of any foreclosure actions;
4. An update to Table 3 of the Official Statement (using, to the maximum extent feasible, the methodology used for such purpose in Table No. 2 of the Official Statement) provided that assessed values may be used rather than appraised values;
5. A statement as to the number of residential units for which building permits were issued for property within the District during the calendar year that ended in the District's fiscal year for which financial statements are required to be provided as part of such Annual Report;
6. Any change to the Rate and Method of Apportionment of Special Taxes for the District set forth in Appendix A to the Official Statement;
7. All information required to be filed by the District with the California Debt and Investment Advisory Commission pursuant to Section 53359.5(b) of the California Government Code which has not been otherwise reported pursuant to any of the provisions above.

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## APPENDIX F

### INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2010 Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2010 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2010 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010 Bonds (the "Securities"). The Securities 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 Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an



authorized representative of DTC. The deposit of Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

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